

SOUTH AFRICA'S INTERNATIONAL FINANCIAL RELATIONS, 1970-1987:
HISTORY, CRISIS AND TRANSFORMATION

by

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ABSTRACT

This thesis examines South Africa's relations with the International Monetary Fund (IMF) and private international banks in the period 1970-1987. The thesis is written in the language, and uses the conceptual tools, of 'regulation theory', an approach whose emphasis on 'time-changing' empirically-grounded explanations of a country's global interactions, it is suggested, represents an advance over modernisation and dependency approaches.

The thesis traces the altered circumstances of the international financial system since the early 1970s. It points to the struggle by the IMF to come to terms with these changes in harmonising a new international financial system. The IMF has, however, increased its supervisory power in relation to most countries in the developing world, especially after the oil-price hike of 1973. The basis for, and implications of, the explosion in private international bank lending in this period is also examined.

This analysis is followed by an examination of the crisis in the South African political economy since the early 1970s and of the way this crisis was influenced by global events. It is argued that South Africa's international economic relations were transformed by both global and domestic forces and came to be dominated by issues of international finance.

The second part of the thesis examines South Africa's relations with the IMF and private international banks. This relationship was supportive of the apartheid state's development strategy for most of the period 1970-1985. It is argued that until the 1980s, the relationship also benefited the western industrialised countries who profited both materially and strategically, from their economic relations with South Africa.

However, in 1983, the US imposed restrictions on its support for IMF loans to South Africa. By mid-1985 a combination of political and economic changes within South Africa forced some foreign banks to withdraw their normal credit facilities to South Africa. These events precipitated a dramatic change for the worse in South Africa's international financial relations. It is argued that although there has been some improvement in these relations since 1987, the country's relations with the IMF and banks have not returned to their previous mostly supportive character. A combination of international, regional and domestic economic and political factors has ensured that the current crisis in South Africa's international financial relations is already deeper, more prolonged, and more damaging to growth prospects, than the crisis of the mid-1970s.

PREFACE

The original research for this thesis was carried out at the School for Advanced International Studies of the Johns Hopkins University in Washington DC and at the Institute for Social and Economic Research at the University of Durban-Westville, where the author is presently employed. The thesis is registered in the Department of Economic History at the University of Natal and the research was carried out under the supervision of Professor WM Freund.

This study represents original work by the author and has not been submitted in any form to another University. Where use was made of the work of others it has been duly acknowledged in the text.

This thesis is dedicated to my parents.

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This thesis is dedicated to my parents. I should like to thank them for their support and love. Their own early struggles from poor beginnings as children only two generations away from the group of indentured workers who came to Natal in the second half of the nineteenth century, made my life so much more comfortable than their own. To them, to Mannie, to my uncle Vasu who died so suddenly in March 1989, and the rest of my family, I owe more than I can ever say in words. My 'Durban' family Enver and Kulsum Motala, I thank for allowing me the freedom of their wonderful home. To Enver, I additionally owe a great debt, both as an intellectual and a friend, and for enriching my knowledge and experience of working class organisation and activity.

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CONTENTS

| | |
|---|------|
| Abstract | i |
| Preface | iii |
| Dedication | iv |
| Acknowledgements | v |
| Contents | viii |
| List of Tables | ix |
| | |
| GENERAL INTRODUCTION | 1 |
| | |
| CHAPTER 1 INTRODUCTION: HISTORY, LITERATURE AND THEORY | 7 |
| CHAPTER 2 THE CHANGING INTERNATIONAL MODE OF REGULATION: FLEXIBLE EXCHANGE RATES, THE IMF AND PRIVATE INTERNATIONAL BANKS | 50 |
| CHAPTER 3 ECONOMIC CRISIS AND THE TRANSFORMATION OF SOUTH AFRICA'S INTERNATIONAL ECONOMIC RELATIONS, 1970-1985 | 91 |
| CHAPTER 4 THE INTERNATIONAL MONETARY FUND AND THE APARTHEID STATE: 1970-1983 | 143 |
| CHAPTER 5 PRIVATE INTERNATIONAL BANKS AND THE APARTHEID STATE: 1970-1985 | 199 |
| CHAPTER 6 PRIVATE INTERNATIONAL BANKS, THE IMF AND THE RESCHEDULING OF SOUTH AFRICA'S DEBT: 1985-1987 | 251 |
| CHAPTER 7 CONCLUSION | 294 |
| POSTSCRIPT | 307 |
| APPENDICES | |
| Appendix 1: Additional Tables | 310 |
| Appendix 11: Tombstones | 312 |
| | |
| BIBLIOGRAPHY | 317 |

LIST OF TABLES

| | |
|---|-----|
| Figure 1: Average Annual Gold Price: 1974-1985 | 16 |
| Table 1: South Africa's Terms of Trade, 1970-1982 | 16 |
| Table 2: Foreign Exchange Earnings from Gold Exports and as a Percentage of Total Export Revenue, 1910-1946 | 17 |
| Table 3: The Growth of Afrikaner Business per Sector, 1938/9-1948/9 | 20 |
| Table 4: Loan Flows from BIS Reporting Banks to Different Borrowing Groups, 1978-1984 | 76 |
| Table 5: South Africa's Merchandise Exports according to end-use and Stage of Production | 109 |
| Table 6: South Africa's Purchases of IMF Currencies, 1947-1985 | 151 |
| Table 7: All Purchases by African Countries from the IMF, 1947-1984 | 152 |
| Table 8: Southern African States Purchases from the IMF, 1947-1984 | 153 |
| Table 9: Non-oil Developing Countries which are also major Exporters of Manufactures, Purchases from the IMF, 1947-1985 | 155 |
| Table 10: Foreign Bank Credits (Medium and Long-term) to South African Borrowers, 1970-1976 | 201 |
| Table 11: Banks which provided International Credit to South Africa, 1972-1976 | 211 |
| Table 12: Publicized Private Source International Credits to South African Public Borrowers, 1974-1976 | 218 |
| Table 13: Publicized Private Source International Credits to South African Public Borrowers, 1972-1976 | 218 |
| Table 14: International Bank Lending and South African Domestic Investment, 1971-1976 | 222 |

ADDITIONAL TABLES: APPENDIX 1

| | |
|---|-----|
| Table A: Banks in Negotiations with South Africa over the Debt Standstill | 310 |
| Table B: Country Risk League Table: South Africa | 311 |

GENERAL INTRODUCTION

This thesis examines South Africa's international financial relations, especially its relations with the International Monetary Fund (IMF) and private international banks in the period (1970-1987), an era characterised by conditions of crisis and change both in the international economy and in the political economy of South Africa itself. This thesis is written in the language, and uses the conceptual tools and organising principles of regulation theory, an approach which though derived largely from the works of French regulationists Aglietta, Lipietz and de Vroey, also owes some debt to the US 'social structure of accumulation' adherents Gordon, Bowles, and Weisskopf.¹ Regulation theory's intrinsic emphasis on notions of crisis and change, both in the mechanisms of the international financial system and in the political economy of individual nation states, in 'time-changing' empirically-grounded explanations of a country's location and interaction with the world economy, it is suggested, represents a distinct advance over the grand teleologies of modernisation and dependency approaches.²

The nature and character of a country's location within and relations with the world economy may change back and forth over time, from being say, supportive of a particular form of growth and development, to being detrimental to such growth by promoting vulnerability and underdevelopment. The form of support could change in fundamental ways, so too could the nature of 'dependency'. A country's trade, technology and financial relations may under certain circumstances constrain national economic strategy. Under different circumstances these links may offer opportunities which may advance the potential of national economic and political strategies. These kinds of changes in the nature and character of a country's links with the world economy often compromise and show up the limitations of the totalising prescriptions, the 'black and white patterns' of both modernisation and dependency approaches. These changes are themselves deeply rooted in crises and changes in the international financial and

monetary system and in the accumulation strategies and institutional and political structures of individual nation states.

The thesis traces the altered circumstances of the international monetary and financial system and its regulatory institutions since the early 1970s. It points to the largely unsuccessful struggle by the IMF and the advanced industrialised countries which dominate the IMF, to come to terms with these changed circumstances in harmonising and facilitating balance of payments adjustment, exchange rate co-ordination, the growth of output and employment on a world scale, and the supervision and control of international financial affairs. The IMF has, however, increased its supervisory power and influence in relation to most countries in the developing world, especially after the 1973 and 1979 oil-price hikes and as declining prices for primary good exports intensified balance of payments crises in these countries. The basis for the explosion in private international bank lending in this period is examined as are the effects of this explosion on the attempt to establish a new mode of regulating financial interaction on a world scale.

This analysis of global developments is followed by an examination of the accumulation and political crisis in the South African political economy since the early 1970s, ie of the change in the domestic regime of accumulation and mode of regulation. The discussion traces the way this crisis was influenced by international economic events and changes. It also examines the effects of both the domestic crisis and global developments on the nature and structure of South Africa's international economic relations. The central features of the crisis are examined, especially in the years 1975/6 and 1984/5, when the country ran into considerable difficulties in its external financial relations. It is argued that South Africa's international economic relations were transformed by both international and domestic forces and came to be dominated by issues of international finance and capital outflows.

Against this background the second part of the thesis examines South Africa's dealing with the IMF and banks. The analysis traces the basis for and changing nature and character of South Africa's relations with the IMF and private international banks. South Africa's relationship with the central institutions of the post-war global economy, the IMF and private international banks, was supportive of and beneficial to the apartheid state's largely nationally-determined growth strategy for most of the period 1970-1985, except for a brief period in the mid-1970s. It is argued further that, until the very different circumstances after the mid-1980s, the relationship also benefited the western industrialised countries who profited both materially and strategically, from their investment, trade and political links with South Africa. Both the IMF and private international banks generously supported requests from the state and private sector for foreign loan financing in this time. During South Africa's mid-1970s political, economic and balance of payments crisis, the country received strong and unqualified support from the IMF. At the same time, however, it appeared that private holders of South African bonds disposed of their holdings wherever possible and that private international banks tightened up on the terms of their lending and, as far as can be ascertained, also cut down on their massive funding of state and parastatal infrastructural and strategic projects, which was the main feature of their South African exposure at the time.

Bank lending, increasingly of a short-term character, and mainly to the private sector this time, increased dramatically in the late 1970s and early 1980s, supported by a combination of more favourable international and domestic factors.

In 1983 a small, then largely unnoticed, change in US policy towards South Africa resulted in the imposition of restrictions or qualifications on US support for IMF loans to the apartheid state and the IMF itself produced its first critical report on the relationship between apartheid and economic growth. By the mid-

1980s the escalation of political resistance to the apartheid state reached a point where, from the perspective of foreign banks, the prospects of a 'destabilising and unsettling slide' to black majority rule appeared a distinct possibility. These political factors, coupled with equally important economic considerations such as the banks' heavy exposure to South Africa, the prior (1983) decision of the IMF, with US support, to restrict balance of payments assistance to South Africa, the onset of further massive deficits in the country's external accounts, the dangerously short-term maturity structure of South African debt and the decline in the relative attractiveness of the South African economy as compared both to its own post-war economic performance and to its international competitors in the 1980s, all acted to drastically reduce South Africa's creditworthiness, standing and status as a debtor country. The actions of the banks in withdrawing normal credit facilities to South Africa in mid-1985, precipitated a dramatic change for the worse in the nature and character of South Africa's international financial relations. It is argued here that although there has been a noticeable improvement in South Africa's international financial relations after 1987, the country's relations with the IMF and banks have not returned to their previous mostly supportive and harmonious character. A combination of international, regional and domestic economic and political conditions has ensured that the current crisis in South Africa's international financial relations is already deeper and more prolonged than that of the mid-1970s.

The South African political economy continues to be in crisis, despite attempts at political and economic restructuring. The country's ability to generate a new, robust and sustainable growth model to escape the crisis has been limited by the strained and abnormal state of its relations with the IMF and private international banks. This is not to suggest that the restoration of these links, or even a new more internationally acceptable political dispensation, will be sufficient to resolve South Africa's economic crisis.

The restrictions on capital inflows however, while problematic, have not brought about the total collapse of the country's economic and productive base, so precipitating rapid political change. Part of the reason for this lies in the previous supportive role of foreign multinationals, banks and the IMF for South Africa's post-war growth model of import-substitution and state-led infrastructural and strategic industrialisation. This support from multinationals often acting in 'partnership' with national capital, from private international banks in the form of foreign loans and from the IMF, in the form of financial assistance when the strategy led to balance of payments problems, enabled the apartheid state to develop its import-substitution industrialisation and an infrastructural and strategic base more sophisticated than those of most other developing or middle-income countries, and hence one relatively more resilient to international economic pressure. Significantly though, the state did not in the post-war period intervene to the same extent to support, in an active developmental sense, the growth of an internationally competitive manufacturing sector, a factor which goes some way towards explaining South Africa's inability to resolve its present economic crisis.

ENDNOTES

1. Aglietta, 1979; Lipietz, 1986, 1987; De Vroey, 1984; Gordon, Bowles and Weisskopf, 1983
2. Noel, 1987, p327

CHAPTER ONE

INTRODUCTION: HISTORY, LITERATURE AND THEORY

(1) BACKGROUND AND ISSUES

This thesis examines the nature, character and structure of South Africa's international financial relations in the period from c1970 to 1987, ie from the end of the fixed exchange rate regime which regulated the international economy since the war to the dramatic and painful financial experience which confronted South Africa in (and in the two years after) August 1985. The financial history of South Africa's international economic relations is studied, as are the changes in the dominant features and trends in the country's international financial relations. The core chapters of the thesis are Chapters 4, 5 and 6, in which the history, crisis and transformation of South Africa's relations with the central institutions of the modern post-war international financial economy - the International Monetary Fund (IMF) and private international banks is examined. This analysis is preceded by a critical overview of the changes in the institutions, mechanisms and rules of international finance, since 1970 (Chapter 2) and of the changes in the nature and structure of South Africa's international economic relations, and in the economy itself. (Chapter 3) It is against the essential background of these latter changes, that the 'narrower' issue of South Africa's international financial history is studied.

The thesis begins with an overview of some methodological, historical and theoretical questions relevant to the study of the location of particular countries within the post-1970 world economic system.¹ After some preliminary remarks and observations, which immediately follow this introduction, Chapter 1 proceeds to an examination of the long-term and structural features of the South African political economy which have shaped the nature and character of this country's relations with the world economy. This

is followed by a critique of the literature on South Africa's international economic relations.

It is argued that the literature on South Africa's relations with the world economy has failed adequately to take into account either those special features of the South African economy, which have defined the uniqueness of this relation in comparison with other developing countries, or more recent changes such as the dramatic growth and sudden curtailment in international loans and credit, changes which make a reassessment of the theoretical and historical basis of these relations imperative. The existing body of literature tends to see South Africa's relations with the world economy, especially foreign capital inflows, as being **either** a powerful influence, the engine of growth and industrialisation, the source of all creative and productive ideas, and as contributing to the breakdown of (irrational) racial barriers in South African society (modernisation, liberal approaches), or as distorting, promoting dependency and vulnerability at the same time and in the process of industrialisation, and reinforcing or accomodating racial barriers (dependency and dependent industrialisation approaches). A critique of these approaches, is followed by an outline of an alternative approach to the study of a country's relations with the world economy, an approach based on regulation theory. It is argued that such an approach offers a more useful, subtle and flexible framework for studying South Africa's international economic and financial relations than the dogmatic and holistic prescriptions of either modernisation or dependency variants. The approach allows one to envision these relations as being neither uniformly positive nor uniformly problematic, but as moving in the spectrum between these poles in a era of interacting and overlapping crisis and change in the international economy and South African political economy. In the years between 1970 and 1987, we shall see that South Africa's relations with the IMF and the private international banks, the dominant theme of this dissertation, first grew in importance and then deteriorated in

ways which find explanations based on modernisation and dependency approaches seriously wanting.

(2) WHAT CAN ECONOMIC HISTORY CONTRIBUTE TO THE STUDY OF INTERNATIONAL FINANCE?

Susan Strange has argued that the study of the international political economy, and of aspects of it such as the international financial system, has been hindered by conventional disciplines such as economics and international relations. The myopia of the former and the state-centrism of the latter, she goes on, has led to a 'stultifying neglect of structural power in matters of world production (and) world finance...'² Strange is critical of the 'enclosing instincts' of economists which lead them 'into a curious indifference...towards factors perceived as lying outside the enclosing fence, especially when these factors smack of the political or the unexpected.'³ Conventional economic accounts of the post-1973 crisis in the international economy, for example, often rest on the 'exogenous' shocks brought about by the oil price hike as though this was 'some kind of natural catastrophe having nothing to do with the mismanagement of the dollar or the freedom accorded to the major oil companies.'⁴

She contends that more light on the really hard questions is often shed by economic historians, by development economists and by specialists in business history and management. In similar vein, we would like to suggest that the economic historian can bring to the study of international financial relations a liberating emphasis on the complexities and subtleties enmeshed in the interrelationships between states, institutions, markets and ideas. Because the management of international finance credit mechanisms is essentially political, in touching on issues of power, it is only with difficulty satisfactorily explained within the 'enclosing' framework imposed by conventional economics. The accounts of economic historians, on the other hand, are not

invariably or simply reduced - like most of the deductive economics of today are - to the 'construction of mathematical models of elegance, without in all cases [being] a close approximation to the behaviour of man.'⁵ They are therefore less encumbered by the demands of the mathematical sciences and the 'simplicity' (often absurdity) these demands force onto such theories of political economy. Nor does economic history make parsimony - ie using the fewest possible variables in explaining phenomena - into a virtue.

'Freed' from such concerns as these, economic history allows, though not inevitably, an easier, more productive and satisfying ramble into byways most often unexplored by practitioners of conventional economics, yet ones which we would argue are essential to an understanding of international financial relations that is neither reductionist nor technicist. This is not to imply that there is no place for mathematical economics or econometrics in economic history. Nor is it meant to imply that economic history is by definition or inevitably either 'better' because it is more free ranging, or 'less rigorous' because it lacks the precision of, say, modern neo-classical economics.

This present study is at one and the same time international, historical and, in parts, comparative. The study spans seventeen turbulent and volatile years in the economic and political history of South Africa, and in significant sub-regions of the world, including the Middle East and the newly industrialising countries of Asia. It covers a period of great uncertainty and change in the international political economy, both in its rules and mechanisms as well as in many of its central features and directions. It touches on developments in contemporary world history and world politics. It is located within an as yet unsettled debate on the question of the characterisation of an individual country's location within the world economic system. It grapples with notions of 'crisis' in capitalist accumulation and encompasses the issue of economic and political transformation of society. We would argue that these tasks may very satisfactorily, though not exclusively,

be tackled from the intellectual underpinnings and traditions of economic history by someone with a training in, and an understanding and appreciation of the value of, conventional economic theory.

(3) WHY STUDY SOUTH AFRICA'S INTERNATIONAL FINANCIAL RELATIONS?

As recently as late 1985, Freund remarked that the subject of international credit and financing was a 'very underresearched issue in South African economic history.'⁶ Though this has often been regarded as sufficient reason to undertake a study, the underresearched state of a subject is not in itself compelling enough reason to justify research. For in fact, no study may indeed be needed. However, significant developments and changes in the nature and structure of South Africa's international economic relations in the 1970s and 1980s, formed the backdrop to Freund's observation. Following the debt crisis of August 1985, the remarkable extent to which South Africa's international economic relations, ie the set of trade, services, investment, technology and loan transactions with the rest of the world, had in the preceding decade become skewed in the direction of financial issues, suddenly became apparent. In particular, the extent, nature and implications of South Africa's previous heavy borrowings from the IMF and private international banks came to dominate discussions of South Africa's international economic relations. Moreover, in the period since the early 1970s South Africa's relations with the IMF and private international banks initially increased in significance and then dramatically deteriorated, for reasons which have not been systematically explained. Banks, bondholders and the IMF responded differently to the crisis of the mid-1970s as compared to the mid-1980s crisis.

As Kahn points out the emphasis on loans, rather than direct investment, since the early 1970s is reflected in the increase in the proportion of indirect investment to total foreign investment

from 32pc in 1970 to 61pc by 1984.⁷ The maturity period of South Africa's private international bank loans shortened sharply by the early 1980s, and the proportion of non-bank private sector debt rose to over 50pc of total debt by August 1985. Both these aspects represent a reversal of the position in the mid-1970s, when South Africa's foreign loans were predominantly borrowed by the state or parastatal agencies, and were of a longer maturity.

South Africa also borrowed heavily from the IMF in the mid-1970s when it experienced severe economic and political difficulties, and again in 1982. IMF assistance to South Africa in the mid-1970s was greater than the combined assistance to all other African countries in that time. Only Britain and Mexico were bigger beneficiaries of IMF assistance in 1975 and 1976. The escalation in internal resistance to the apartheid state after 1976, also served to focus attention on bank and IMF loans to South Africa, and made the issue front-page news on the international media. Campaigns against IMF and bank loans to South Africa increased in extent, intensity and effectiveness in the 1980s. The curtailment of IMF assistance in 1983 and of new bank loans to South Africa after 1985, has placed considerable strains on the country's balance of payments, and on growth prospects, despite a slight easing of the country's debt situation after the agreement of February 1987.

These changes in the nature and structure of South Africa's international economic relations arose out of and reflect changes both in international financial markets, in particular the growth in the extent and sophistication of the Eurocurrency market, as well as the development since the early 1970s of an economic crisis within South Africa itself. Seidman has shown, for example, that the rate of profit of US firms in South Africa fell relative to the rest of Africa.⁸ These and other relevant changes both in international financial markets and in the South African economy are discussed more fully in Chapters 2 and 3 respectively.

These factors suggest that no longer can the obviously underresearched nature of South Africa's international finance and credit be ignored.

(4) LONG-TERM AND STRUCTURAL FEATURES WHICH HAVE SHAPED THE FORM OF SOUTH AFRICA'S LINKS WITH THE WORLD ECONOMY

South Africa's relations with the world economy have been shaped by the particular circumstances of its industrialisation, the basis for its insertion into international trading, investment and strategic relations and the way in which these relations evolved and became 'codified' thereafter. These features of the South African political economy have often been downplayed in discussions of South Africa's international economic linkages, and especially in debate about their effect in shaping the development of the modern South African economy. Alternatively, these features are interpreted in very different ways, depending upon the theoretical foundations underpinning the analysis.

Thus for example, one theoretical point of entry into studying the international aspects of a country's development (and its impact on the local economy) has been provided by dependency theory. Dependency theory traces the origins of what is termed the distorted, 'centre-determined' development in 'Third World' countries (alternatively peripheral, semi-peripheral, sub-imperialist) in numerous externally-derived forces. These include the legacy of colonial dependence; the selective exploitation of a volatile, unstable primary export sector; adverse and deteriorating terms of world trade; an accomodative local state (colonial or neo-colonial); its inability to pursue an autonomous national-determined development path; a technological and financial dependence on the metropolitan centres; the absence of a viable capital goods sector and hence debilitating dependence on capital goods imports. Some versions of dependency conclude by arguing that

capitalist industrialisation in the periphery is as a result impossible.

Explanations of development and underdevelopment that rest on notions of dependency have generally tended to downplay the role and creativity of national capital in development, so reducing the central players to exploitative foreign capital and an invariably accomodative local state. However, it is our contention that some countries, and South Africa can be numbered among these, have to some extent succeeded in developing into fairly self-generating and creative capitalist centres, albeit of a second rate order. During the period of the post-war boom some of these countries 'with a powerful enough state structure' were able for some time to take relative control over their relations with the world economy, and managed to lay the basis for the development of a national productive, infrastructural and strategic foundation.⁹ Their development was derivative in many ways, and linked crucially to their trade and investment relations with the industrialised capitalist countries.

But various factors enabled these countries to pursue a form of internationally-linked development, that did not simply translate into a state of dependency and underdevelopment, of being exploited and totally vulnerable to the dictates of world capitalism. On the contrary it has been shown, and in South Africa's case will be shown, that the 'dictates' of world capitalism as it were, may turn out at certain times and in certain circumstances to ensure a high degree of protected development for some countries. Thus for example, South Africa's gold reserves and role as a regional and stabilising power are two such factors ensuring this. This section examines some of these long-term, historical and structural features in the South African political economy which are often 'lopped off' or disregarded within the confines of a dependency approach.

(4.1) Gold as a primary export commodity.

Social formations in the developing world are often characterised by their unusual dependence on one or two primary export commodities, whose price fluctuations and volatility have posed a major problem for their development. South Africa has been highly dependent on gold in this way and foreign capital played a vital role in the early development of the gold mining industry. Yet as a primary export commodity gold possesses certain unique intrinsic and institutionalised characteristics which set it apart from the primary exports of most other countries outside the industrialised capitalist world. Though its role has changed, its status as an (official or unofficial) international monetary asset, has meant that South Africa has benefited from the ready market, and for most of this century, a guaranteed price for its primary export commodity. It is still possible, because it is widely regarded as money, for gold to be used as a means of settling international payments.

Although as we shall note again in Chapter 3, the variability in the gold price introduced an instability into the South Africa economy which contributed to the development of the generalised crisis in the economy after 1973 and its high price at the turn of the decade of the 1970s contributed in disguising some very serious problems in the economy, it must also be pointed out that the gold price has been at a significantly higher level since its official and fixed dollar-denominated price was abolished. (see Figure 1) This higher price floor has meant as Kaplan has shown, that South Africa's terms of trade, ie the ratio of the price of South African exports to the price of South African imports, 'have not been nearly as unfavourable as those of other primary exporters...'¹⁰ Excluding gold, South Africa's terms of trade have declined each year from 1970 to 1986 except between 1972-73. But the picture as Table 1 shows changes significantly by the inclusion of gold in the terms of trade index.

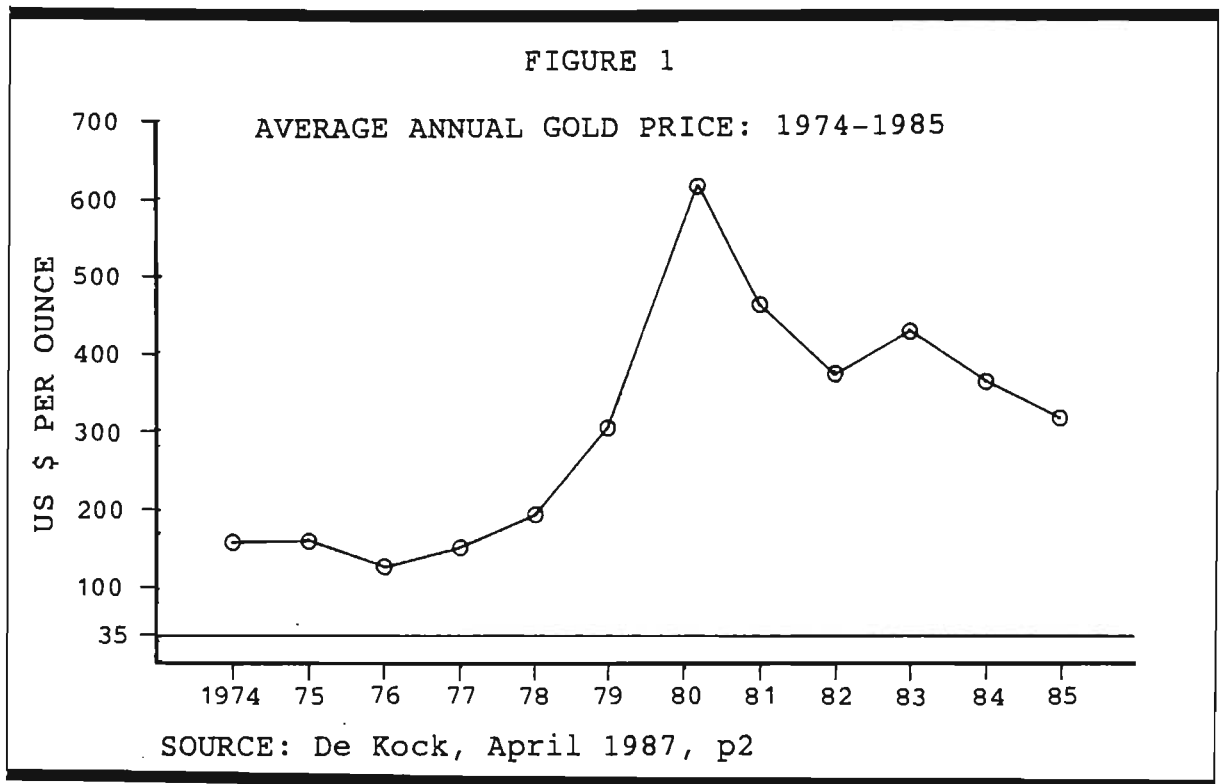


TABLE 1

SOUTH AFRICA'S TERMS OF TRADE: 1970-1982

| YEAR | INDEX, INCL GOLD | %CHANGE | INDEX, EXCL GOLD | %CHANGE |
|------|---------------------|---------|---------------------|---------|
| 1970 | 78,5 | -4,7 | 115,8 | -1,4 |
| 1971 | 80,1 | 2,0 | 109,9 | -5,1 |
| 1972 | 85,4 | 6,6 | 103,4 | -5,9 |
| 1973 | 102,8 | 20,4 | 112,4 | 8,7 |
| 1974 | 111,7 | 8,7 | 109,0 | -3,0 |
| 1975 | 100,0 | -10,5 | 100,0 | -8,3 |
| 1976 | 89,5 | -10,5 | 96,8 | -3,2 |
| 1977 | 92,1 | 2,9 | 96,8 | 0,0 |
| 1978 | 94,2 | 2,3 | 94,0 | -2,9 |
| 1979 | 97,8 | 3,8 | 87,2 | -7,2 |
| 1980 | 109,0 | 11,5 | 80,6 | -7,6 |
| 1981 | 94,9 | -12,9 | 78,9 | -2,1 |
| 1982 | 87,6 | -7,7 | 74,6 | -5,5 |

SOURCE: South African Reserve Bank; Nedbank Survey, 1983, P116

Furthermore, gold mining revenues, especially after the second World War, played a central role in the development of the local manufacturing industry, and hence contributed to a nationally-

based economic development much more than was possible for most countries whose economies were 'narrowly' centred around primary export commodities.¹¹ Table 2 shows that in the period 1910-1946, gold contributed some 50pc of total export earnings. This has been an important factor in helping to stave off the kind of balance of payments crises experienced by so many other colonial and developing countries in this time. Additionally, these foreign exchange earnings have allowed South Africa to pay 'without undue difficulty, for the capital goods it urgently needed to expand its total national production...indeed gold has been able to finance the imports without which industrial expansion would have been impossible.'¹²

Gold's status in the international monetary system and the secondary beneficial effects on national development, places it in a different league from most other primary exports, with all their attendant vulnerabilities. Dependency theorists may point to South Africa as a one-product economy, and in that they would be correct. But that product is and has been gold.

| YEAR | GOLD | TOTAL | % |
|------|------|-------|----|
| 1910 | 63 | 107 | 58 |
| 1920 | 71 | 175 | 40 |
| 1930 | 74 | 148 | 50 |
| 1946 | 205 | 418 | 49 |

SOURCE: Adapted from South African Statistics, 1982, Section 16.5

(4.2) South Africa's 'Settler Community', the State, and National Capital.

South Africa's relatively large settler community¹³ of both Afrikaner (Dutch) and British origins has had a strong commitment to an autonomous national development which has resulted in a less distorted, less foreign dominated and more balanced and diversified development than has been the fate of many other developing countries. The importance of a permanent 'European population' with their 'high economic and cultural aspirations' in the construction of the modern South African economy and society has been stressed in two works by Frankel.¹⁴ This settler presence has made its impact both at the level of the state and in a particularly creative national bourgeoisie. First, at the level of the state this factor has manifested itself in numerous ways. Kaplan has shown that the movement away from an almost total dependence on the gold mining industry and industrial protectionism (and the taxation of mining) formed part of a state strategy 'principally designed to foster local industrialisation'.¹⁵ Protection of local industry and import-substitution policies remained, until the 1972 Reynders Commission report, a central and virtually uncontested feature of state policy. Davies et al have argued that though 'South Africa remains a peripheral social formation caught in the imperialist nexus' from 1924, the 'state itself became the mechanism for an attempt to transform the nature of South Africa's incorporation into the imperialist chain...'¹⁶

More important, however, was the massive state sponsorship, especially in the 1920s, 1950s and again (using foreign bank loans) in the mid-1970s, of local infrastructural enterprises and development. The harbour boards, the central South African railways, the Rand Water Board and the Land Bank (which was reformed in 1912) were all created as state enterprises before Union.¹⁷ The South African Reserve Bank (SARB) was set up in 1921.¹⁸ The Smuts government created the electricity supply commission, ESKOM, which Christie refers to as a "major institution of South African 'state capitalism'" in 1924, ie immediately before the PACT government came into power. Christie also shows that by the end of the second World War, most of the 'commanding heights' of the South

African political economy were owned by the state through its parastatals. These included the agricultural Control Boards, the iron and steel corporation, ISCOR, and the Industrial Development Corporation (IDC).¹⁹

Following the capture of the state by the National Party in 1948 and especially in the wake of the growing security crisis and threat of sanctions after 1960, other state policies to promote national development were introduced, including import controls which 'compelled foreign manufacturer-exporters to develop franchises or otherwise directly participate in the South African economy, state financial assistance to investors...'²⁰ etc. The presence of a settler community also spurred local development by providing a not insubstantial, though as became clear later, limited internal market for some manufactured products. O'Meara has shown that while the National Party government after 1948 secured the political conditions for rapid accumulation by all capital, the conditions created for the even more rapid growth of Afrikaner capital, in agriculture, in finance and in secondary industrialisation were particularly marked. Table 3, however, illustrates that the growth of Afrikaner business did not wait upon the coming into power of the National Party, with the number of Afrikaner businesses increasing markedly between the years 1938 and 1939, especially in commerce and manufacturing. After 1948, according to Wassenaar, the state-owned IDC was used to further 'strengthen Afrikaner participation in the industrial progress of the country...[and] as a bulwark against the Anglo-American Corporation.'²¹

It is important to emphasise, however, that it is not our view that the various South African governments after 1924 were, despite the anti-British rhetoric of the 1920s, set on an anti-foreign capitalist purge, in which the sole beneficiaries were to be the rising national bourgeoisie, especially of Afrikaners. Indeed as Kaplan and others have shown,²² the relationship between the South

TABLE 3

THE GROWTH OF AFRIKANER BUSINESS PER SECTOR, 1938/9-1948/9

| SECTOR | 1938/9 | 1948/9 |
|---------------|--------|--------|
| Commerce | 2428 | 9585 |
| Manufacturing | 1239 | 3385 |
| Finance | 40 | 68 |
| Mining | 3 | 9 |

SOURCE: O' Meara, 1983, p182

African state and fractions of capital, national and foreign, were always complex, and require a more disaggregated and subtle analysis than the narrow demands of this section allow. Our contention is simply that the early attempts by the South African state to implement a programme of national economic development and the time and space this allowed for a variety of state policies to become translated into action, has led to the realisation of a relatively more balanced form of national development than that characteristic of other peripheral social formations. To see South African development as being determined solely by the impulses of the metropolitan centres, with which its evolution and shape is often narrowly associated, would be to fail to appreciate these kinds of state interventions.

The South African state's role in establishing the more general conditions under which capital accumulation has unfolded in this country, to the benefit of both local and foreign capital will not be analysed here. These aspects such as the racial controls over the labour force, the process of labour's cheapening and differentiation, policies in regard to black urbanisation, housing etc were often crucial to the survival and growth of smaller, more labour intensive local capitalists, especially in the period after the second World War.²³

The second manifestation of the settler community's impact on South African national development, was felt through the creative role of local capital. Legassick's work, for example, while not denying the obvious importance of foreign capital in South Africa's development, correctly insists on the distinctive and creative role of native capital. Thus he argues that the '[v]olume of foreign investment should not lead to an underestimation of the strength of local capital.'²⁴ Mining on the scale which occurred in South Africa, called for the development of local industries such as food, timber, chemicals and metals, and the mining industry, which was becoming more locally owned, contributed to set up industries such as SAPPI and AECI. By the 1930s already local share ownership of the mining industry had increased from 15 to 40pc.²⁵ The formation of the Anglo-American Corporation is symptomatic of this change. Innes has contended that AAC as a

fraction of international capital with a strong local commitment, had a far greater interest than any other fraction of mining capital in the expanded reproduction of the South African social formation, and that this explains both its heavy economic and political involvement in the area as well as the relative ease and eagerness with which it ...sought to form economic and political alliances with other local classes. Its international links notwithstanding, AAC should thus be seen as being in a profound sense, a 'representative' of South African capitalist interests.²⁶

In contrast to other 'developing countries' it would seem that a growing proportion of accumulated capital remained in South Africa. Further evidence of this increasing local involvement in South African development at the time was the formation of the South African Reserve Bank (SARB) in 1921, the first in the British Empire. The SARB took over the right to sell gold from the mineowners and gradually established local control over monetary policy.²⁷ In general the development of financial institutions was soon to prove important to the process by which mining surplus was redirected towards supporting domestic manufacturing industry.

In manufacturing, local capital developed its hold between the wars and does not seem to have been overwhelmed by the flood of foreign investment to the extent of some other countries of intermediate development. In this period the state regulated the relations of capital to make this possible. Legassick illustrates this contention, pointing out that South Africa capital 'has been able to obtain a near dominant position in some sectors domestically, and even expand into international investment; that Afrikaner capital 'has been a major force towards resisting the unbridled dominance of foreign capital'; and that the trend especially after the war was towards an increasing inter-sectoral, interpenetration of capitals and towards a partnership of local and foreign capital in many sectors of the South African economy.²⁸ In the 1980s, South African capital displayed its strength by buying up the assets of disinvesting foreign corporations.

Duncan Innes as we have noted, has shown how Anglo-American Corporation, despite its international links, early on developed a particularly South African character with an unmistakable interest in the expanded reproduction of the South African economy.²⁹ Later in this thesis, we shall see how in recent years the further internationalisation of South African capital, and its ability to take advantage of the opportunities created by disinvesting companies, provide further evidence of the sophistication and responsiveness of local capital. These factors point to the importance of recognising national capital as a partner (in some kind of triple alliance with foreign capital and the local state) in the process of South African development in a way not accommodated within a dependency framework.

(4.3) South Africa's role as a Regional Power in the post-war World Economic System.

Developing countries, especially those pursuing populist or 'socialist' models of development have often discovered that the cost of financial assistance received from the IMF and World Bank,

the institutions established at Bretton Woods in 1944 ostensibly with the object of promoting stability and growth in the world economy, has been high in terms of loss of control and autonomy over developmental policy. In pursuit of their role within the world capitalist economy, these supposedly 'neutral' institutions, have extracted promises of policy changes within a wide variety of a borrower's domestic economic policy, as a precondition for financial assistance. This, as can be illustrated from numerous case studies (Jamaica, Tanzania for example) can and has often led to a dramatic alteration and distortion in the borrower's development strategy. Such financial dependency on the IMF (as well as private banks whose own lending is often conditional on IMF supervision) is itself in many cases the result of distortions and structural imbalances created in an earlier (colonial) phase of a country's integration into the world economy. One of the great strengths of dependency theory is that by setting out to understand the functioning of the world economy as a system, it has facilitated and enriched our understanding of these processes. However, it remains true that not all peripheral or semi-peripheral countries who borrowed from the IMF, World Bank and private international banks, have had to face these intractable problems.

It will become clear in Chapter 4, for example, that IMF assistance to South Africa, especially in the form of the massive loans of the mid-1970s and 1982, came with little or no conditionality, despite South Africa's pursuance of economic policies in regard to exchange controls, import controls, subsidies and labour market 'rigidities' among others, which are anathema to the IMF's view of the world and of development and growth. South Africa's relatively privileged status (until the mid-1980s) contrasts sharply with the experience of other developing countries, as we shall see in Chapter 2, and arises out of two important factors related to the country's role and place within the post-war world capitalist system. Incidentally, these factors also partially explain why western industrialised countries for long resisted the imposition of

comprehensive and mandatory sanctions and disinvestment against South Africa.

First, in 1978, US President Carter's National Security Advisor, Zbigniew Brzezinski identified Iran (then still under the Shah), Brazil and South Africa, as among the more important regionally influential nations within the western world, noting that changes within these countries will have profound consequences throughout the areas in which they are situated as well as in the major centres of world capitalism.³⁰ South Africa's particular role within the global capitalist system, has developed over time in a way which has served to limit the scope and possibilities for political and economic changes within smaller and weaker states in Southern Africa. Its own political stability was therefore vital if it was to perform this role successfully. Until escalating international pressure and the unprecedented political upheaval and economic crisis since 1983/4 combined to bring IMF and private bank loans and credit to an abrupt halt these regional dynamics transcended issues of human rights violations, racial discrimination and other moral and political considerations.

Secondly, the scale of economic and financial interpenetration between South Africa and the western industrialised countries has for long been such that the fate of South Africa has been of no small significance to these countries and in particular to many multinational corporations and banks. Faced with stagflation in their home countries, multinational corporations 'stepped up their competition in the (late 1960s and) 1970s for the profitable business of regional sub-centers like South Africa and Brazil.'³¹ These corporations and banks generated a substantial proportion of the profits and earnings for specific firms and countries in the core areas of the capitalist world economy at the time. The characteristics which rendered countries like Brazil, Iran and South Africa 'eligible as the leading candidates for this partnership were: their 'disciplined' low cost labour force; valuable mineral resources; a strong parastatal sector, providing

infrastructure and cheap inputs and a market; powerful local firms to act as private sector partners to the growing number of transnationals; and a state capable of maintaining these conditions, whatever the aspirations of their inhabitants.³² In short the attractiveness of these countries to foreign capital was predicated upon a simultaneous or prior nationally-based development both thorough state and private sector initiatives and control mechanisms.

It is this higher degree of 'symmetry' in the interpenetration of economic relations between South Africa and the industrialised countries, the relatively greater degree of mutual inter-dependence and benefits (as compared with that of most other developing countries) coupled with the political and stabilising regional role that South Africa has played which forms the basis for the greater support that South Africa received from the IMF and other international organisations. IMF assistance to South Africa under easy terms (low conditionality) was, until 1983, one way in which South Africa benefited from and was 'rewarded' for its role as a sub-regional centre within the world capitalist economy. It was also the basis upon which its increasing vulnerability to balance of payments crises after 1974 has been modulated. However, whereas for long, the US and other Western countries had seen South Africa's role as promoting and maintaining regional stability, this changed in the aftermath of the rapid deterioration in the apartheid state's international political, and financial relations which set in after 1984. The US, for example, thereafter began to see South Africa's domestic and regional policies as causing and perpetuating instability in the sub-continent.³³

(5) THE LITERATURE ON SOUTH AFRICA'S INTERNATIONAL FINANCIAL RELATIONS

The literature on South Africa's financial relations with the IMF, World Bank and private international banks, is not vast. In part

this reflects the relative insignificance of these private and public international loan flows to South Africa until the beginning of the 1970s. Thus for example, a thesis on the IMF, by a South African, John Wilmot, submitted to the University of South Africa in 1960, was totally devoid, save for a few isolated footnotes, of any reference to South Africa, a founder member of the Fund.³⁴ Frankel's pioneering work on capital investment in Africa³⁵ was the first, and remained for long the only, systematic account of South Africa's investment relations with the rest of the world. The section on South Africa analysed the amount of, return to and fluctuations in the supply of foreign capital to South Africa's mining industry, in the main, as well as the implications for the structure of the economy, of the dominance of the mining industry. However, the emphasis mainly on share capital investment from Great Britain, France and Germany reflects the relative unimportance of international bank loans and credit in the first fifty years of South Africa's industrialisation. However, Frankel did show that South Africa's close links with the London money market, enabled this country to develop a means of access to the world's largest money market, which were largely closed to non-British African countries.³⁶

The survey of the literature which follows has a double purpose. First, to examine whether and how South Africa's international financial relations have been dealt with in the literature. And second, though peripherally at times, to trace the theoretical contours of the debate in this literature on the way South Africa's integration into the world economy has been characterised. Two broad theoretical frameworks are identified, the first based on modernisation theory, emphasises the (positive) value of foreign capital and technology in the economic and social upliftment of 'backward' peoples and countries which enables them to grow increasingly to resemble 'modern' (American) society. Most of the more recent (post-1970) literature, on the other hand, appears to have been influenced by dependency ideas, or caught within the framework of questions posed by dependency, even if they are not

always directly located in the dependency paradigm. Dependency theory stresses the links which bind developing to developed countries, and the negative and exploitative character of these links. As we shall see, although only Bloch's work appears to be a direct product of the 'dependent development' version of dependency theory,³⁷ even some of the more sophisticated work such that of Kaplan takes off from the questions posed by dependency.³⁸

A substantial body of literature on South African industrialisation had tended to argue that 'industrialisation is accompanied by forces which inexorably erode 'ascriptively based' modes of social organization such as apartheid...'³⁹ Foreign investment which was also seen to be crucial to South African growth and industrialisation, was therefore according to this view, an important element in the erosion of apartheid. Michael O'Dowd is perhaps the best known exponent of this thesis.⁴⁰ This view, which Milkman has oddly labelled 'africanist'⁴¹ and which in the more general literature would be labelled a variant of 'modernisation theory' has been criticised both for its crude economic determinism and for its inconsistency with the historical experience of simultaneous increased growth and intensified racial oppression in the 1960s. It tended to smooth over, deny or at least ignore the constraints imposed on South African industrialisation through its integration into the world economy. A modern variant of this argument, including that of Bromberger, would hold that foreign sector influence is essential (though not in any inevitable sense) to the breakdown of the racial hierarchy, which in turn would be good for growth.⁴² Its proponents, mainly in capital and the state would be opposed to sanctions and disinvestment on these grounds. Although there remains a substantial body of opinion which would subscribe, at least to the latter version of modernisation theory, there has been little or no advance in the theoretical sophistication of this thesis. Thus for example, in a more recent article Dickman argues strongly for South Africa to maintain an open economy. He contends that foreign capital will be a crucial element in creating sustainable growth in a post-apartheid

society.⁴³ The rest of this survey looks mainly at the more recent dependency influenced literature.

First et al, in their 1972 study of western investment in South Africa pointed to the extent and implications of the interpenetration of western and South African business interests. Their remarks on the role of multinational companies, and of international bank loans to South Africa after the war, and especially after 1970, are primarily designed to illustrate foreign capital's support for the apartheid regime. In short the work represented a sort of counter-argument to the earlier modernisation literature's insistence on the capacity of foreign investment to undermine apartheid. The work's reference to South Africa's international financial links is useful in marking out the point at which these links begin to assume new significance, but it has no, nor does it claim, any theoretical pretensions, save some throw off observations in the conclusion about whether South Africa has changed from being a 'satellite power' to a 'metropolitan power in its own right'.⁴⁴

Legassick's early work touched on South African foreign investment. It also represented one of the early revisionist or Marxist challenges to the then dominant modernisation or liberal view. Legassick was influenced by the new ideas of dependency theory. Thus, for example he talked about the change in South Africa over a hundred years from being a 'peripheral part of the world economic system to a developed sub-metropole, generating development and exploitation in its own periphery.'⁴⁵

Yet, interestingly, he tried to strike a balance between the obvious importance of foreign investment and the distinctive and creative role of native capital. Legassick observed that the state received foreign loans for infrastructural investment, even as early as the 1950s, and that this was important in creating 'a more favourable situation' for foreign investment. He refers to a \$10m 1951 credit to the state by a consortium of US banks, brought

together by (the bankers) Dillon Read, and of World Bank loans of over \$200m, which was borrowed by the state railway, SAR, and ESKOM among others, in the decade of the 1950s.⁴⁶ At the time (as Christie too points out) the World Bank provided ESKOM, in particular with significant amounts of loans, having recognised the 'crucial role of Escom in the South african political economy.'⁴⁷

In the mid-1970s, there emerged a dependency-influenced, though clearly in parts anti-dependency, view in the work of the South African Poulantzians (Morris, Kaplan, Davies and O'Meara). They argued that through the influence of the state, national capital succeeded in establishing a period of capitalist development 'which entailed both a deepening of capital and the expansion of capitalist production into new areas.' Yet they also argue that despite South Africa's 'relatively high levels of industrialisation' and 'regular assertions of 'independence' the country remains a 'peripheral social formation caught in the imperialist nexus.' The 'externally' caused recession of the mid-1970s is cited as an example that international incorporation remains 'determinate'.⁴⁸

Bill Johnson characterised foreign investment as the 'secret of the South African miracle', and his 1977 book, though uncomfortably conspiratorial in parts, was written at the beginning of the period when international finance became an important factor in South Africa's international economic relations. The country had received its first significant direct financial assistance from the IMF in 1975 and 1976 and the state and parastatals had borrowed large sums from private banks for infrastructural investment in the mid-1970s. Johnson was perceptive enough to warn that South Africa's foreign loans might create a kind of dependency, which would make it vulnerable to pressure from the West, though his view that the origins of the crisis that brought an end to the South African boom of the 1960s 'all lay in the world beyond' (perhaps unintentionally) tends to somewhat overvalue the 'external factor'.⁴⁹

In another vein, the works of 'state interventionist' proponents such as TA du Plessis, which arose out of the 1970s debate over the question of an appropriate industrial development strategy for South Africa, also represented an implicit kind of dependency position. They saw South African industrialisation as being overly dependent and vulnerable on the world economy, mainly through its reliance on gold exports and capital goods imports, and argued that the continuation of some form of import-substitution industrialisation was the way to address this. Bell went on to strongly argue the case for the extension of import-substitution into some areas of capital goods. Again, this literature was more important for the general debate about the nature of South Africa's 'dependency', than on the issue of its international finance.⁵⁰

Both Bloch and Seidman invoke the idea of 'dependent development or industrialisation', in an attempt to avoid the pitfalls of the more totalising versions of dependency theory. The latter approach argued, on the basis of an intrinsically unequal relationship between an exploitative 'centre' and an economically weak and politically and militarily vulnerable 'periphery', that industrialisation in the latter was an impossibility. Bloch wrote of dependent industrialisation as a situation where the dominant impetus comes from outside the periphery. For Bloch, South African development processes though impressive, were locked into 'imperialist' dynamics of development, especially technologically, so that South African firms 'could not escape their dependence on a rhythm of accumulation set in the imperialist centres.'⁵¹

The Seidmans remarked on the significant industrialisation of South Africa and some twenty other 'semi-peripheral' countries which had emerged as 'outstanding examples of ..dependent development.' Their work has more to say on issues of international finance than Bloch's. They argue that private international banks, in the wake of stagnation in the advanced industrialised countries, expanded their loans to 'subcenters' like South Africa and Brazil in the

1970s, the latter group of countries being more willing to pay higher rates of interest. Within this framework, they devote considerably attention to the details of international bank and IMF loans to South Africa.⁵²

But if proponents of modernisation stand accused of ignoring the constraints on South African development imposed by the world economy, both dependency and dependent development approaches tend to 'liquidate the unique history and development of specific countries'.⁵³ The emergence of the concept of dependent development mirrored its popularisation in the international literature. Cardoso, for example,⁵⁴ by invoking the concept of 'associated dependent development', stressed the 'primacy and explored the diversity of actual concrete situations of dependency.'⁵⁵ The intention was to avoid the crude generalisations of the more totalising versions of dependency approaches such as those of Frank, Amin and Wallerstein.⁵⁶ While Frank spoke of four centuries of 'continuity in change' Cardoso's work emphasised the rapidly changing nature of some Latin American countries.

Yet, and we shall return to this point again shortly, explanations based on dependent development (or other 'labels' such as sub-imperialism, semi-periphery) remain insufficiently sensitive to the simultaneous overlapping and interaction between crises and change in the way the international economy is regulated, on the one hand, and crises and change in the underlying productive and institutional bases of accumulation in individual nation states, on the other hand, in explanations of the way in which individual countries relate to the world economy. Though undoubtedly an advance over the formulations of Frank and others, dependent development exponents continue to pose questions about a country's relations with the world economy within the limits of the same paralysing conceptual format.

The work of Petras and Morley represent one attempt at posing these questions in a new way, by defining the problematic as one of

exploitation rather than development. Their study of Brazil, South Africa and Iran rejects concepts such as dependence and modernisation, and focuses on class relationships at the national and international levels. They contend that class cleavages extend beyond national boundaries and involve 'international class units.'⁵⁷ They locate these 'sub-imperialist' powers in a contradictory and changing relationship both to the advanced capitalist countries and to other peripheral societies in the region they themselves dominate. Internal political struggle against these repressive regimes, class differentiation and economic growth/crises are examined within this problematic. The introduction of political factors and of class differentiation within these 'sub-imperialist' powers helps to put back more of a country's own history and development into an analysis of its relationship with the world economy, though the meaning and significance of their new concept of 'international class units' does not emerge forcefully enough to be more analytically appealing, than say, dependency.

Amin and more recently Amin et al have gone so far as to argue that South Africa is an 'independent developed capitalist state which has a definite role in the network of imperialist relations.'⁵⁸ They argue that the country has built its own technological capacity and in international financial relations its position is one of 'equal integration into the world economy.'⁵⁹ They argue that international bank investments in South Africa have been the 'major catalysing factor in the genesis of a relatively autonomous South African capital.'⁶⁰

These views appear to deny the applicability of conventionally posed dependency or dependent development ideas to South African development and although there is merit in their claims about the country's own productive and technological capacities, they end by actually standing the dependency argument on its head in the South African case. For they tend to see South Africa as a full blown imperialist power, intent and with the power to exploit its

immediate periphery, its 'constellation of South African states.' This portrayal is sterile in much the same way as the dependency characterisation of South Africa. It would be difficult to see how South Africa's own relative vulnerability to international financial pressure from the IMF and the banks of the advanced capitalist countries after 1985, can be satisfactorily explained within its terms. How one would locate the political struggle in South Africa or the origins and form of the post-1970 crisis in its political economy into this schema, is also hard to conceptualise. Surely these factors alone introduce a complexity into the equation which makes the characterisation of South Africa as an independent or autonomous capitalist state (just like any other!) somewhat problematic? Finally, what they mean by an 'independent capitalist state' is far from clear.

Kaplan's work on the internationalisation of South African capital highlights one aspect of the strength and/or sophistication of South African capital. He tends to see South African capital as 'not so much dependent and under the iron heel of metropolitan interests that determine its (development) possibilities, (but) as quite creative and adaptive, increasingly uninterested in expanding investments only or even primarily in South Africa, partly for economic reasons.'⁶¹ In a subsequent paper on South Africa's changing place in the world economy, Kaplan begins by posing the question of "whether South Africa could be said to be a 'dependent' economy, ie one so reliant on 'foreigners', in one way or another, that it is incapable of generating its own economic momentum."⁶² Here Kaplan examines more fully recent developments in South Africa's international financial relations, and discusses especially the background and political controversy surrounding South Africa's 1983 loan from the IMF.⁶³ Kaplan's work succeeds in introducing South Africa's international financial relations onto the agenda. However, the question he poses at the beginning is not satisfactorily answered, partly because it cannot be satisfactorily answered in that form, and one (perhaps even Kaplan) is left at the

end with a feeling of emptiness at having been robbed of an easy answer.

(6) CRITIQUE AND ALTERNATIVE CONCEPTUALISATIONS

This survey of the literature on South Africa's international financial relations and of the way its links with the world economy have been characterised in this literature reveals the paucity of this literature and the fact that most of the more recent and creative attempts to grapple with the question of South Africa's relations with the world economy are influenced by dependency theory. What follows is an attempt to critique the central tenets of dependency as a forerunner to the introduction of an alternative approach to the study of a country's relations with the world economy, ie regulation theory.

Participants in the debate about development have invariably begun by retracing the history of this debate. Paul Cammack has challenged this (futile) preoccupation arguing that, '(d)espite the challenges to the modernisation approach the debate is still grounded in ideas which are at one and the same time naive, ideologically coloured, ethnocentric, ahistorical and over-elaborate and which have been abandoned virtually in their totality as it has developed.'⁶⁴ Given the absence of any new ideas in the exposition of the modernisation approach as applied to the South African case, and the dominance of a dependency influenced view the post-1973 literature, this study, in the spirit of Cammack's remarks, takes off from a critique of more recent arguments, in the belief that this would prove both less tedious and more useful.

Let us begin by making one observation about the dependency argument as it relates to South Africa which places the debate in an analytically and politically different terrain than debates elsewhere in the 'Third World'. For there is an interesting twist in the dependency argument as it applies to South Africa. In most

post-colonial and post-independence societies (ie the societies out of whose experience the dependency approach originally drew its strength) the dominant political actors, the state and popular classes fought their 'dependency' to attain greater autonomy over their development. In South Africa however, the apartheid state and most fractions of capital have vigorously supported an extended role for the foreign sector especially since the mid-1970s, even when in a contradictory way, they have often simultaneously striven for greater nationally-based development. Their strident campaign against sanctions and disinvestment, rests fundamentally on the belief that South African economic growth, now and in a post-apartheid future, will be constrained and damaged by being cut off from the stimulus of foreign capital and technology. Even more ironically, popular and left forces in South Africa have been so preoccupied with the struggle against apartheid, that they have not been overly concerned one way or the other with the question of the costs (or benefits) of South Africa's links with the world economy. On occasions they have indeed been hopeful that foreign pressure can topple the apartheid regime, disregarding entirely any consideration of the costs of repaying this 'favour' or 'debt' for the independence and autonomy of a post-apartheid South Africa.

Despite some creative attempts by Legassick, the Poulantzians and others, questions about the nature and character of South Africa's insertion into the world economy, continue to be posed in terms of a dependency rubric, as even Kaplan's 1983 piece illustrates. Whereas the great merit of this approach lies in focussing attention on the 'links between economic spaces in the world system', its weakness is that it is not concerned enough with 'the concrete conditions of capitalist accumulation, whether in the core or the periphery.' Lipietz has summarised the kernel of the dependency view as follows:

The North needed the South as an outlet for the export of its surpluses. Also the wealth produced in the primary sector of the South was transferred to the North through unequal exchange. Any industrial emancipation of the South would have represented

an aggression against the North, and the North possessed the military means to avert such an outcome.⁶⁵

Dependency theory whilst no doubt an advance over earlier modernisation approaches,⁶⁶ has in turn overschematised, dogmatized and generalised our thinking on these issues. It has failed to focus on the transformations which have occurred in the mode of regulating the world economic and financial system. Further it has largely failed to take account of the transformations in the production/consumption nexus and in the regulating mechanisms of capitalist accumulation within countries.⁶⁷ Nor has it been sufficiently concerned with the way in which global changes have been transmitted to specific countries; the way these in turn may produce both crises and opportunities for development; and the way in which domestic crises and changes again transform the dominant features, nature and character of a country's relations with the world economy.

However, Paul Cammack has recently mounted a strong defence of dependency especially against the 'structure-functionalist and pluralist' consensus of Evans et al.⁶⁸ Cammack's defence may equally be directed to 'left critics', who have correctly pointed to the limitations of the cruder versions of dependency and their refutation by latter day 'classical Marxists', what Cammack calls the 'black and white pictures presented by either Gunder Frank or Bill Warren...'⁶⁹ In short he argues that in the major works of the classical marxists, including Marx, Lenin, Trotsky and Gramsci, (as against their treatises on the Third World), and especially in more contemporary studies of dependencistas, such as Cardoso, who are lesser known in the English speaking world, there is to be found all the analytical sophistication and attention to national specificities and variations, the emphasis on history, comparative case studies, class differentiation, class conflicts and alliances, and the role of the state, reputedly absent in the dependency approach. The critique of dependency, Cammack argues, is based on a "thoroughly misleading 'standard version' of the development of

the debate and the nature and deficiencies of 'dependency theory'."⁷⁰

There is no doubt that the introduction of Cardoso-type variations and subtleties into 'dependency theory' contributes enormously to the analytical sophistication of studies of the insertion and interaction of nation states into the world economy. But for all this refinement, dependency approaches continue to comprehend a 'concrete social formation ...as a standardised, inevitable pattern.'⁷¹ They insist on a schematization which tends to close and stultify explanations. They fail to capture crucial tendencies and changes over time and in character in the nature of capitalist accumulation in individual nation states, changes which have to be continuously 'found' in order that the system continues to work in the face of periodic crises. Neither has it dealt adequately with equally fundamental changes in the regulation of the world economic and financial system as a whole. Changes in the latter set of factors invariably have profound consequences for a country's links with the world economy, as well as its own capacity to 'find' new correspondences between its production/consumption nexus and the institutions which evolved to support accumulation. Dependency approaches have failed adequately to account for these changes and problems.

The ongoing debate around these issues has produced alternative explanations which focus on the development of crises and the conditions for renewal of accumulation in specific capitalist societies and the way these shape and (more likely) are themselves shaped by changes in the international institutional environment within which accumulation occurs. The French regulation school, which counts among its leading proponents, Alain Lipietz, Michel de Vroey and Michel Aglietta ⁷² has proposed the concepts of 'regimes of accumulation' and modes of regulation (in the American version, 'social structures of accumulation') to describe and capture these notions.

An accumulation regime is a particular combination of production and consumption which can be reproduced over time despite conflictual tendencies; and a mode of regulation refers to an institutional ensemble and complex of norms which can secure capitalist reproduction pro tempore despite the conflictual and antagonist character of capitalist social relations... [the] discovery of effective modes of regulation is an outcome of social and political struggles which stabilise to form a hegemonic system - class alliances, based on consensus armoured by coercion, which shape the interests both of the ruling and dominated classes into conformity with the accumulation regime.⁷³

These ideas and concepts are important in arriving at an understanding of a country's economic and financial links with the rest of the world. More particularly they help us to understand better the changes, both within specific social formations and the international economy, and their interactions, referred to above.⁷⁴

Dependency theorists showed correctly, argues Lipietz, that the

existence of an unequal development of capitalism between nations, followed by the stabilisation of structures of exchange, favored fast accumulation in the advanced countries. There seemed to exist...a regime of accumulation on the global scale with respect to which core/periphery polarization plays a regulating role.⁷⁵

Dependency theory then goes on to argue that this 'regime' was imposed by the core upon dominated countries **because** it was necessary that some parts of the world take on the function of resolving problems of capitalist accumulation in the core, or that this 'regime' was imposed with the intent of resolving crises. Lipietz argues that the open-endedness of history, the class struggle, capitalist competition, the autonomy of national social formations and the sovereignty of states are among the factors which should warn us against making such functionalist propositions. For to do so 'would be to suppose that each compromise or each shift of power relations at a given place on earth corresponds to the necessary adjustments of a cybernetic system endowed with perfect homeostasis.'⁷⁶ Imperialism was not therefore 'created' to resolve contradictions in accumulation in the 'centre', but 'it continued to exist; it developed because, in

fact, it resolved them...only in [this] sense can it be said, things being what they are and history having its habits, that imperialism's function is to resolve these contradictions.'⁷⁷

Lipietz demonstrates that until World War 1, an extensive regime of accumulation (extension of the scale of production) based on the widened reproduction of capital goods dominated the 'core' capitalist countries. Since World War 11, an intensive regime of accumulation (continuing reorganisation of work, the creation of production line methods and the real subsumption of labour to capital) focussed on mass consumption. This regime of growth Lipietz calls Fordism, which was accompanied by an emerging new mode of regulation, institutionalising mass consumption. This mode of regulation included the spread of collective bargaining, state provision of social services, easier access to credit etc.⁷⁸ By the end of the 1960s and the beginning of the 1970s, Fordism as a mode of capital accumulation, seemed to reach certain limits, not least of which was that productivity gains slowed. As long as productivity gains were not present to offset rises in capital intensity and real wages, a crisis of profitability would set in. Any attempt to reduce mass buying power resulted in a recession, any increase cut into the rate of profit.

Given that regimes of accumulation and modes of regulation change within a capitalist mode of production, (as noted above for core capitalist countries between the 1930s and 1970s) the futility of constructing a general theory of core-periphery relations on the basis of the articulation of modes of production itself becomes apparent.

In the 1970s the emergence of the NICs, on the basis of strong authoritarian political regimes who chose economic strategies which capitalised on the advantage of abundant cheap labour to offset pressure on profit rates, demonstrated that 'exclusion from the virtuous circle of intensive accumulation was in no way final.'⁷⁹

In broad terms two strategies or schemes can be distinguished among these countries. The first, where products are mainly re-exported to the core, Lipietz refers to as 'bloody taylorization', which centres mainly around textiles and electronics industries with low technical compositions of capital, a large female labour force and anti-worker repression. The second, he defines as peripheral Fordism, whose consumption-based growth rests on a combination of local middle class consumption, worker consumption of domestic durables and cheap exports to the core countries, but where qualified employment positions, for example in engineering remain external to the country. Though there is a marked variability among these countries they share the characteristic of having a strong internal market for manufactured goods. Domestic manufacturing plays a significant role in the national regime of accumulation. The growth of the NICs has also been followed by an increase in trade between these countries and the rest of the 'south', the old raw material exporting countries, thereby introducing a further layer or stratification into the hierarchy of the nations in the world economy. Significantly, the exports of the NICs to the south are in general, more sophisticated and capital intensive than its exports to the core countries.

Given all these variations Lipietz concludes that

[t]he Third World today appears as a constellation of particular cases with vague regularities constituted out of the fragments of the logic of accumulation (which proceeds well or badly depending on local circumstances) and tendencies that arise and fall over a few years without establishing any stable mode of regulation.⁸⁰

In the 1970s, the development of peripheral fordism was enormously boosted by the explosive growth of the international financial market, following the sudden increase in the volume of disposable funds after the oil price hike of 1973. These surpluses, deposited in private international banks, 'were crying out for borrowers at any price'⁸¹ what with the downturn in the advanced capitalist countries limiting new profitable sources in these established

centres. In this system the transfer of value to the core occurred via debt interest charges, in addition to the earlier profit repatriation by multinational companies.

This new global regulation of development by private banks allowed for much experimentation in the internal modes of regulation within peripheral Fordist countries. Some 'chose' liberalism, others experimented with protectionism and rigorous planning, and different models coexisted in the same country. Mexico for example exported oil and labour, while making available to the USA along its border, a zone of sweatshops 'where bloody taylorization runs free' yet elsewhere developed peripheral Fordism.⁸²

These developments in international financial markets and the variations in the economic performance of peripheral Fordist countries they allowed as well as the problems they subsequently posed, have combined to create serious difficulties for those explanations of 'core-periphery' relations in the post-1973 era, which remain within the broad dependency rubric. Since the late 1960s there has been a noticeable decline in aid/grants, a decline in direct foreign investment and after 1973 especially, a dramatic growth in private international bank loans to developing countries. In many of these borrowing countries (an authoritarian) state used these loans to support its own, largely internally-determined development strategy. It could also use economic policy to encourage the private sector to borrow from transnational banks. These bank loans would then be used to support one or other model of development of the sort alluded to above.

Now while it would appear that these foreign loans intensify 'dependency' thereby strengthening the case of cruder versions of dependency theory (ie greater dependency on private banks, growing debt burdens and submission to IMF supervision), it is true that such loans have often strengthened the state and (at least temporarily) enhanced national development, as Stallings has demonstrated in some detail for Peru, for example.⁸³ For as Lipietz

shows 'when the loan is advanced to finance the import of capital goods, the bank prevalidates a given strategy for industrialisation, but it is the firm or state which choses the strategy.'⁸⁴ The growth of direct foreign investment outside the core capitalist countries in the 1950s, 1960s and early 1970s had occurred largely at the discretion of the investors and (usually) remained firmly under their control. The countries which 'benefited' from this foreign investment undoubtedly lost some of their autonomy over economic questions. But the growth of the international financial markets and the increased lending of private international banks created the conditions for some of these countries to partially reverse this loss of autonomy. At the very least the nature of the dependency changes to one of financial dependency, which, as long as the country's credit rating stands up, is not incompatible with a greater degree of nationally (as against externally) based control over the strategy and directions of development.

The slowdown in the growth rates of the advanced capitalist countries; the rise in global status of the OPEC countries; the explosion in international capital markets and in bank lending to peripheral Fordist countries; and the increase 'South-South' exchange, all combined by the late 1970s and early 1980s to introduce variations, subtleties and exceptions into the characterisation of the role and place of countries in the world economy which seriously upset the value and explanatory power of the simple dichotomy model of dependency.

In particular the dependency approach fails to adequately account for shifts over time in regimes of accumulation and modes of regulation within capitalist social formations in the 'core' and 'periphery', as well changes over time in the global regimes of accumulation (the move to flexible exchange rates; the emergence of private international bank regulation).

(7) CONCLUSION

Looked at in terms of regulation theory, South Africa's post-war strategy combined an economic policy of import-substitution industrialisation with the social and political system of apartheid. Gelb refers to this mode of regulation as 'racial Fordism',⁸⁵ for while accumulation occurred on the basis of linking extended mass production to mass consumption, on both sides these processes were restricted by racial and institutional factors. By the early 1970s this model began to break down, as did the international mode of regulating international monetary relations. The interaction of crisis and change in the international economy and the South African model of import substitution industrialisation led in the period 1970-1987 to very significant changes in this country's international financial relations.

Though there appears to be a growing recognition of the strengths of regulation theory in contextualising crises and change, it is important to point out that the debate over its relevance and explanatory power has only just begun.⁸⁶ The usefulness of regulation theory in explaining the crisis in the South African political economy since 1973 has been pioneered by the researchers of the Economic Trends Group and this research has only just begun to attract a wider and critical audience.⁸⁷ Although critical of the usefulness of applying regulation theory in explaining domestic developments in the post-war South African economy, Natrass, for one, nevertheless accepts that 'as a theoretical framework which stresses the inter-relationship between economic and socio-political processes, it has some potential. It is after all, important that analysts of South Africa locate economic developments firmly within the parameters of apartheid institutions and structures.'⁸⁸

This thesis is written in the language, and uses the conceptual tools and organising principles of regulation theory, which as the foregoing analysis has attempted to show, has certain advantages

over both modernisation and dependency approaches. However, given the continuing debate and controversy over its value and status as a theoretical paradigm,⁸⁹ the strong case for its use here is not made, ie it is neither argued that regulation theory is the only theoretical foundation for understanding South Africa's international financial relations, nor that this study 'proves' the undoubted superiority of regulation theory over alternative explanations in all respects. Nevertheless, regulation theory does provide useful and incisive conceptual tools and ideas, centrally those of 'regimes of accumulation', and 'modes of regulation', to undertake such a task, and it is in this latter sense that the approach is used here.

One of the greatest strengths of regulation theory is in conceptualising economic and socio-political change and crises over time in individual nation states and in the international economy as well as the interactions between these national and global dynamics. In the period this dissertation covers (1970-1987) the South African economy entered (and remains within) a crisis of a form distinguishable from its earlier long boom phase by the 'shift from a reproductive to a non-reproductive cyclical downswing'⁹⁰ in 1974. The major part of this study of the history, character and transformation of South Africa's international financial relations, is located against the background of this generalised crisis of accumulation and the struggle over the apartheid form of the South African state. But it is also located within changes and crises in the international mode of regulating monetary and financial affairs in the wake of the collapse of the Bretton Woods system. In both South Africa and in the international economy we witness a period of struggle for a new order, for new modes of regulation and regimes of accumulation, to replace those set up at the end of the second World War.

Within the context of these crises, IMF and private bank loans and credit were critical in both a directly monetary and indirectly supportive sense, at specific moments of economic and political

tensions in South Africa. The actions of these institutions facilitated the process of state-led infrastructural and strategic investment and helped to alleviate politically-induced tensions and allowed the space for the restoration of a climate of stability within which strategies of economic regeneration and political reform aimed at subverting a more radical transformation to a post-apartheid political and economic order were tested, albeit with varying degrees of success. The IMF's massive financial assistance to South Africa after the Angolan raid and Soweto uprising in 1976 and again in 1982, and private bank loans and credit virtually throughout this period of orisis, with the exception of the months immediately after August 1985, are examples here.

But at other moments in this period of South African economic history, IMF and private bank actions in themselves produced moments of severe economic and political tensions and instability. At these times the integument enveloping South Africa within an international economic network tightened to squeeze South Africa, whereas in other instances it stretched outwards in an accommodative way. The IMF and transnational banks operate on a broad canvas of often contradictory and conflicting demands and circumstances, so that their relationships with specific countries are not functionally fixed and unilaterally either supportive on the one hand or exploitative and damaging on the other. Their actions vis-a-vis South Africa after 1983 (IMF) and in 1985/6 (the banks) are examples here.

It is at these latter moments when the 'damaging' actions and policies of the IMF and banks coincide with a generalised crisis of accumulation and or political tensions that the underlying strengths or resilience of a country's economy are tested. In South Africa's case the actions of banks in 1985, following IMF restrictions in 1983, combined to expose the underlying crisis-ridden nature of the economy, which their own supportive assistance throughout the 1970s and early 1980s had succeeded partly in papering up.

ENDNOTES

1. The term 'world economic system' is not used here in the strict Wallersteinian sense, but simply as a short cut way of to indicating the broad economic interrelationships among countries which trade or invest or lend to one another.
2. Strange, 1985, p24
3. Strange, 1985, p18
4. Strange, 1985, pp18/19
5. Kindleberger, 1984, p1
6. Freund, 1985
7. Kahn, 1988
8. Seidman, 1986, p202
9. Roddick, 1984, p127
10. Kaplan, 1983, p162
11. Milkman, 1979, p267
12. Hobart-Houghton, 1973, p110
13. Milkman, 1979, p269
14. See for example, Frankel, 1959, especially pp120-123 and Frankel, 1938.
15. Kaplan, 1976, p72
16. Davies et al, 1976, p29
17. Christie, 1984, p142
18. For a discussion on the origins of the South African Reserve Bank, see Gelb, 1989.
19. Christie, 1984, pp142/3
20. Milkman, 1979, p271
21. O'Meara, 1983, p250
22. See for example, Kaplan, 1977.

23. For a discussion of these issues see for example, Legassick, 1974 and Hindson, 1987.
24. Legassick, 1974, p273
25. Legassick, 1974, p262
26. Innes, 1984, p145
27. Legassick, 1974, p261
28. Legassick, 1974, p274
29. Innes, 1984
30. Petras and Morley, 1981, p6
31. Seidman and Makgetla, 1980, p13
32. Seidman and Makgetla, 1980, p14
33. For more on this see Chapters 6 and 7 of this thesis.
34. Wilmot, 1960
35. Frankel, 1938
36. Frankel, 1938, pp76/77
37. Bloch, 1981
38. Kaplan, 1983
39. Milkman, 1979, p262
40. O' Dowd, 1979
41. Milkman, 1979
42. See for example Bromberger, 1979.
43. Dickman, 1986
44. First, et al, 1972
45. Legassick, 1977, p175
46. Legassick, 1974, p111
47. Christie, 1984, p157. Christie uses the English acronym ESCOM, whereas following recent changes and standardisation, we shall refer to the South African Electricity Supply Commission, by the acronym ESKOM.

48. Davies et al, 1976
49. Johnson, 1977
50. Du Plessis, 1965; Bell, 1975
51. Bloch 1981, p54
52. Seidman and Makgetla, 1980
53. Milkman, 1979, p262
54. Cardoso and Faletto, 1982
55. Aidan Foster-Carter, 1984, p5
56. Frank, 1980; Amin, 1982; Wallerstein, 1983
57. Petras and Morley, 1981, p39
58. Amin, 1977; Amin et al, 1987
59. Amin et al p19
60. Amin et al, p20
61. Kaplan, 1983a; Freund, 1985
62. Kaplan, 1983, p159
63. This political controversy is also examined in a piece by Chettle, in which the IMF decision favouring the South Africa loan request of 1982 is vigorously defended. See Chettle, 1983.
64. Cammack, 1988, p89
65. Lipietz, 1986, p16
66. This point will not be argued here. See for example Lipietz, 1987.
67. These terms will be explained shortly in this chapter.
68. Cammack, 1988 quoting, Evans P, Rueschemeyer, D and Skocpol, T (eds) 1985, Bringing the State Back In, Cambridge University Press, New York.
69. Cammack, 1988, p103
70. Cammack, 1988, p108
71. Lipietz, 1986, p19

72. See for example Lipietz, 1986 and 1987; de Vroey, 1984 and Aglietta, 1979.
73. Jessop, 1988, p150
74. The section which now follows draws mainly on the pioneering work of Alain Lipietz, who offers an exciting post-dependency approach to the study of the international economy and of 'core-periphery' relations.
75. Lipietz, 1986, p20
76. Lipietz, 1986, p21
77. Lipietz, 1986, p21
78. Gelb, 1987, p38
79. Lipietz, 1986, p30
80. Lipietz, 1986, p34
81. Lipietz, 1986, p34
82. Lipietz, 1986, p34
83. Stallings, 1985
84. Lipietz, 1987, p109
85. Gelb, 1987, p39
86. For critical discussions of the value of regulation theory, see for example Noel, 1987 and Clarke, 1988, Jessop, 1988.
87. For a discussion of the economic crisis in South Africa since 1974 see Gelb, 1987 and Gelb, 1988ms, especially in the latter the article by Kahn. For a critique of the applicability of regulation theory in the South African context see Nattrass, forthcoming 1989.
88. Nattrass, 1989, p75
89. See for example Clarke, 1988.
90. Gelb, 1987, p42

CHAPTER 2

THE CHANGING INTERNATIONAL MODE OF REGULATION: FLEXIBLE EXCHANGE RATES, THE IMF AND PRIVATE INTERNATIONAL BANKS

(1) INTRODUCTION

In 1944 an international monetary system was established at Bretton Woods in the United States of America (US), which set up a way of regulating international economic relations. The system which emerged after much debate, was based on the strength of the US, both politically, economically and in terms of technological supremacy. In addition the US had largely escaped the worst consequences of the war. The dollar was substituted for gold as the main international currency for making payments and settling international debt. The value of currencies was linked to the dollar, which was in turn linked to gold at a fixed rate. The system became known as the gold or fixed exchange rate system.

A second foundation of the Bretton Woods system, apart from the hegemonic role of the US, was the successful operation of the monetary mechanism which was established. This monetary and financial mechanism facilitated and enhanced the expansion of world trade and industry in the post-war years, until the early 1970s. Its success in this period rested first on what Aglietta calls the 'international monetary constraint'¹ and second on an adequate supply of international liquidity. The international monetary constraint operated in a 'very straightforward and drastic way through adjustments in the balance of payments.'² Central banks, which had a central role to play in the system had to settle dollar deficits in their balance of payments by drawing down their dollar reserves. This in turn restricted their room to manoeuvre on domestic macroeconomic policy and forced a tighter line on monetary and fiscal policy. In this way the deficit was absorbed. But the constraint was 'doubly asymmetric'³, for surplus countries were able to 'sterilize' their surpluses, so avoiding the pressure of

adjusting their macroeconomic policies in the opposite direction. Thus a polarisation of surpluses and deficits, a 'cumulative process in which both deficit and surplus countries move deeper and deeper into their respective situations'⁴ was also avoided. de Vroey notes that '[t]hanks to this mechanism, Fordism [the regime of accumulation based on assembly-line production and mass consumption, referred to in Chapter 1 above] was allowed to develop in the different countries without the disturbances brought about by systematic financial tensions.'⁵

An adequate supply of international liquidity was ensured as long as the US ran a surplus on its basic balance, the net balance on current and long-term capital accounts. In essence this required the US to run persistent trade surpluses, through maintaining a high foreign demand for US goods and ensuring a low penetration of foreign goods into the US market. This system rested on the continuing technical superiority of US production over that of other countries. It also tended to restrict US macroeconomic policy, in the sense that such policy was called upon simultaneously to satisfy both an international function, ie ensuring international liquidity, and a regular domestic function. Given the exceptional growth of Japan and other factors, it was apparent that these conditions could not last forever. The 'seeds of disruption'⁶ in the post-war international mode of regulation, were there from the start.

By the second half of the 1970s, after the oil price increase, the attempts to demonetise gold and the official acceptance of floating exchange rates, the US basic balance began to run into deficits - and erratic deficits at that. Systematic polarisations in balance of payments deficits and surpluses, contrasted with the 'balances' of the 1960s; and there emerged gradually a private market for international credit which by its very nature eluded the regulation of the monetary authorities. As a result the international monetary system had 'been profoundly altered and is much more fragile as a result of a double change: the introduction of flexible rates and

the emergence of what Aglietta calls the 'international debt economy'.⁷ In this new dispensation, the role of private international banks and of the International Monetary Fund (IMF) has become critical, even if not always successful and positive.

Under a system of flexible exchange rates, the (deflationary) adjustments needed to eliminate balance of payments deficits occurs through its expenditure-reducing and expenditure-switching effects. The former refers to the decline in real incomes as a result of the effects of depreciation on the price level; the latter to the increase in the price of foreign goods relative to domestic goods which (invariably) follows a depreciation, and which therefore boosts the consumption of domestic goods. The move to flexible exchange rates had important implications for gold, which was no longer fixed in price, as under the gold-exchange system. For major gold producing countries like South Africa, this flexibility in the gold price proved to be a major boost to its mining industry, as well as to the general economy, though as Kahn observed, 'the volatile nature of the gold price meant that the economy and the balance of payments had from time to time to adjust to the unpredictable and sometimes sharp swings in the gold price.'⁸

The emergence of an increasingly sophisticated international market for credit and loans, over which little or no monetary sovereignty exists, has allowed debtor countries greater freedom to manoeuvre. Deficits do not exert as much pressure for their elimination, as in the old mode of regulation, as they can now be turned into increased indebtedness. As de Vroey has noted

national macroeconomic policies of deficit countries become more independent of foreign constraint (so decreasing one form of dependency), but at the cost of a misperception of their own liquidity position and a decrease in credit worthiness (so increasing dependency of another form).⁹

But the earlier autonomy of surplus countries is also affected. The by-passing or short circuiting of central bank control which

the (easy) availability of international credit has facilitated, has meant that surpluses can no longer be neutralised by central bank action. These surpluses now more directly affect national macroeconomic policy. Though the monetary constraint is reimposed in a different form where exchange rate misalignments persist, these adjustments have not necessarily been re-equilibrating, as the experience of systematic polarisations in deficits and surpluses since the mid-1970s has shown.

In short, since the second half of the 1970s the international monetary system, which regulates international trade and capital movements has become less stabilising, extremely fragile and ambiguous.¹⁰ If

a generalised international financial crisis has been avoided it is only because the international banking community has been able to exhibit enough self-control, absence of panic, and flexibility in debt-rescheduling.¹¹

But there are increasing signs that the banks will not be able to maintain this position for long. As we shall see later South Africa did not immediately benefit from such flexibility in rescheduling when it ran into considerable financial difficulties in August 1985. The flexibility displayed by the international banks in the form of the 1987 debt-rescheduling agreement, followed the restoration of political stability after the domestic turmoil in 1984-86.

It is against the background of these broad changes in the mode of regulating the international economy that we now need to examine more specifically the role, ideology, changing place and functions of the two central institutions of the international monetary system, ie the IMF and the private, transnational banks. The study of South Africa's international financial relations cannot proceed without a more detailed picture of developments on these fronts.

This chapter first traces the origins, functions and ideology of the IMF. It will attempt to analyse the factors which transformed the world economy in the 1970s and 1980s. It will trace the struggles by the IMF to come to terms with these altered circumstances, especially in the areas of exchange rate stabilisation and balance of payments adjustment processes. It will become apparent that in the period this study is centrally concerned with, that the IMF largely failed in its efforts to adjust successfully to the new conditions of the international economy. After much debate in the 1970s the IMF assumed the important supervisory role of disciplinarian or policeman to the international economic system. Its stamp of approval, became a critical precondition for bank loans to countries in need of external financial assistance. On occasion the implementation of the IMF's favoured deflationary policy package ran counter to the banks objectives, but in general the relationship between banks and the IMF over questions of financial support to developing countries worked well, though not without its ups and downs. Given the limited resources of the IMF, this complementary relationship, which facilitated lending to deficit countries was important in an era in which these countries desperately sought foreign financing. Obtaining the IMF's stamp of approval and accepting large amounts of bank loans was, however, not always costless as we shall see. Furthermore the IMF soon lost control over the extent and form of bank lending.

As we shall see, the IMF was even less successful, in some of its other important roles. First, its restructuring programmes appeared to have had little or no success in promoting growth and employment in developing countries, and given an asymmetry in its adjustment methods, which we shall note later, its role in shaping economic policy and promoting economic growth, employment and incomes in the industrialised world was limited to say the least. Secondly, in an era of increasing conflict and rivalry between the US, Japan and Europe, the IMF's attempts at co-ordinating exchange rate policies and the management of floating exchange rates was to prove

particularly frustrating. Thirdly, it failed to create and sustain a climate of global financial stability, so essential to the smooth conduct of world trade and investment. This is most evident for example in the continuing problems created by the international debt crisis. Finally, its own lending (as against private bank loans) in supplementing member country reserves has proved to be inadequate in relation to the magnitude of these countries' balance of payments problems, despite the new special lending facilities, such as the Oil Facility and the Extended Fund Facility, created in this period.

Part of the reasons for these failures, arose from the growth of the international financial markets, of bank lending, and the implications these essentially 'anarchic' developments had for controlling and co-ordinating international economic relations. Among the problems arising from the rapid growth of international bank lending were: the unrestricted and legally or institutionally uncontrollable movement of private (financial) capital (by some measures there had been a decline in the mobility of productive capital ¹²); the role of private banks in funding balance of payments deficits; the continuous innovations in these markets which strengthened international banks regardless of national political boundaries and individual currencies; and (when the debt crisis set in) their individualistic and uncooperative response to initiatives such as the Baker Plan, which called upon banks to increase lending to debt-ridden countries, at a time when they were intent on stabilising and reducing their exposure in such countries. This chapter examines the forces which created the massive growth of international bank lending. It also comments briefly on the problems these developments posed for the emergence of a new and successful international mode of regulation.

The altered circumstances of the international economy after 1970 and the changes, experiments, successes and failures of adjustment to these new conditions are, it is argued, better analysed within the parameters of regulation theory. This is particularly true in

understanding the changing role of the IMF and banks. At one level, dependency proponents tend to see the IMF as an all powerful and monolithic institution, designed for, capable of and highly successful at manipulating international financial affairs in the interests of the major capitalist countries, especially the US.¹³ As as we shall see this functionalist notion may be correct only in a narrow and particular sense. But whatever its objectives, it will become clear that in the altered circumstances of the post-Bretton Woods era, the organisation has not always been noted for being highly successful in carrying out its tasks. This failure has been a central factor in perpetuating international monetary and financial instability in the 1970s and 1980s. It may be more correct to characterise the IMF in this period as an international agency which, while powerful and influential in relation to developing country borrowers, was at the same time undergoing the usual problems of transformation, uncertain about its role, searching for a new role, hesitant in carrying out its functions, and with a membership sometimes at loggerheads, given conflicting national interests in the post-1973 global economy.

Furthermore, dependency approaches emphasise and tend to seek uniformity, regularity and homogeneity in relations between (on the one hand) the advanced capitalist countries and international financial organisations they dominate and (on the other) developing countries, as the former set about the systematic underdevelopment of the latter. Such approaches fall short in explaining deviations from the unambiguous black and white patterns and images they have constructed to explaining relations between sets of countries in the world economic system. Regulation theory, on the other hand, is better balanced, consciously seeking explanations which uncover both the beneficial and detrimental features and effects of a country's integration into the world economy. It is comfortable in coping with change, uncertainty, subtlety, uniqueness and crises. For regulation theory focuses directly on the processes of crises and change. The post-Bretton Woods era, was very much an era of crisis and change as the struggle to respond to altered

circumstances and to produce a new international mode of regulating international economic relations, dominated discussions and debate at the IMF, corporate boardrooms and elsewhere.

(2) THE IDEOLOGY AND ROLE OF THE IMF IN INTERNATIONAL FINANCIAL RELATIONS.

The IMF together with the World Bank are the two key public financial institutions in the world economy. Both organisations were planned as specialised agencies within the United Nations system at the UN Monetary and Financial conference at Bretton Woods in 1944, and the IMF was formally established on 27 December 1945. The original functions of the IMF are set out in article 1 of the Article of Agreement under which the fund was established. According to this article the purposes of the IMF are:

- 1) to promote international monetary cooperation through a permanent institution which provides the machinery for consultation and collaboration on international monetary problems.
- 2) to facilitate the expansion and balanced growth of international trade, and to contribute thereby to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all members as primary objectives of economic policy.
- 3) to promote exchange rate stability, to maintain orderly exchange arrangements among members and to avoid competitive exchange depreciation.
- 4) to assist in the establishment of a multilateral system of payments in respect of current transactions between members and in the elimination of foreign exchange restrictions which hamper the growth of world trade.
- 5) to give confidence to members by making the general resources of the fund temporarily available to them under adequate safeguards, thus providing them with the opportunity to correct

maladjustments in their balance of payments without resorting to measures destructive of national or international prosperity.

6) in accordance with the above, to shorten the duration and lessen the degree of disequilibrium in the international balance of payments.¹⁴

The IMF presently consists of 152 members who are classified for analytical purposes as well as in order to determine their eligibility to receive financial assistance from special facilities, as either 'industrial' or 'oil exporting' or 'non-oil developing countries' etc.¹⁵ There also exist sub-categories, such as 'non-oil developing countries', who are also 'major exporters of manufactures', in which sub-category South Africa for example is presently classified. The IMF has developed a set of criteria for classifying countries, but finding common and consistent characteristics is difficult if not impossible. There could for example be some argument about whether South Africa is a 'developing' country or not, even whether it is a major exporter of manufactured goods. This vagueness can produce anomalous situations and as we shall see in Chapter 4, South Africa was able to use this vagueness to its advantage in one or two instances.

The IMF's primary overarching aim is to facilitate the growth of world trade, which is held to be crucial to the need to generate 'high levels of employment and real income and the development of the productive resources of all members as primary objectives of economic policy.' The major instrument by which the Fund attempts to meet this objective is through loans to members who experience short-term balance of payments difficulties, ie those countries unable to earn enough foreign exchange to pay for the imports they need. Despite its nearly 50 year history, however, it was only in the 1970s, (ironically) at the end of the (fixed) dollar-exchange system established at Bretton Woods, in the wake of the oil price hike of 1973 and the subsequent balance of payments problems experienced by oil-importing countries, that the IMF came to the forefront of public attention. For as the post-war mode of

regulating the world economy collapsed and problems of accumulation overtook both developed and developing countries, many countries were forced to turn to the IMF for financial assistance. In many instances this assistance was provided after a stabilisation programme satisfactory to the IMF was agreed upon. Such a programme often dramatically altered the national economic priorities and strategies of borrowing countries. Thus the IMF soon became in this way one of the most powerful international organisations of the twentieth century, decisively influencing, the well-being of the majority of the world's population, especially those living in the 'Third World'.

The position that the IMF came to occupy in the 1970s was a far cry from that envisaged at Bretton Woods. The growth in private bank lending to developing countries after the 1970s was one factor which accounted for this change in the IMF's position in the world economy. The funds available to the IMF have

become dwarfed by the huge growth of those (reserves) associated with private international financial markets. No longer the major source of financing of balance of payments deficits, the IMF became responsible for negotiating the terms of a small pilot loan and the successful completion of the negotiations would be a signal for private banks to provide the bulk of the new finance required.¹⁶

Thus the influence and weight of the IMF derives not because it lends much money but because the granting of its pilot loans to a developing country is the key that can open the door to the private international bank loans and bilateral (tied) aid-grants that most developing countries need to stay afloat. For the Fund does not provide deficit countries with sufficient foreign exchange to facilitate medium to long-term economic adjustment, but only enough to stave off short-term collapse. That seal of approval, as it were, as well as subsequent private international capital inflows, is in general given to countries prepared to accept changes in their economic policy (and implicitly in their development goals and strategy) which the IMF demands. The Fund's criteria for

granting this approval are not only technical. They invariably include ideological preferences against import controls, exchange and price control as well as consumer subsidies, though significantly the Fund is usually not opposed to wage control. Green, however, argues that the ideological element in the IMF's policy is rather overstressed and that the two most consistent strands in IMF policy prescription, ie. favouring devaluation and opposing consumer subsidies 'do not add up to any standard political, political-economic or economic ideology.' Nevertheless he accepts that the

IMF is prone to be sure it knows best, to generalise from a limited number of cases, to be selective in the use of data (especially when available data are fragmentary, conflicting and of doubtful accuracy) and rigid in presenting its case, not least in its occasional dialogue with friendly critics ... That is in a real sense an ideology, but not what is normally meant by ideological controversy about IMF prescriptions...¹⁷

Whether ideological or not in this sense, IMF intervention and prescription, especially since the late 1970s, appears from the evidence to reflect an enormous power (a power not proportional to the financial assistance it provides) over the direction of international financial relations and especially over the development strategies and policies of many developing countries. The Latin American Bureau (LAB) argues that the IMF is

the channel that western nations use to supply that financial support and impose the conditions on deficit countries that reinforce those development strategies approved by the West. Thus the IMF is one of the key instruments for determining how LDC's approach their development problems.¹⁸

This is not to suggest, however, that the role of the IMF derives from some plot or conspiracy - US or otherwise - against the peoples of the world - although it often looks that way given the effect on developing countries and the dominance of the US in the IMF. (We shall return to this point in the conclusion of this section) However, as even the IMF's official historian has noted, the organisation's concern with politically sensitive subjects such as exchange rates and exchange restrictions mean that the fund was

bound to be politically controlled.¹⁹ And that control is exercised by the large western industrial nations - most notably the US - and derives from the dominance of the US and other western industrial nations in the voting and hence decision-making process that is exercised by the twenty-two person Executive Board of the IMF - where the real power rests. Brett has identified four voting groups within the IMF.²⁰ The first consists only of the US, which alone controls nearly 20pc of the vote. A second group consists of the powerful West European nations, including France, the United Kingdom (UK) and the Federal Republic of West Germany (FRG) who hold about 28pc of the votes. A third category consists mainly of 'intermediate' countries, who are represented on the Executive Board by richer nations, for example Spain. The final group consists of the developing countries, but includes Saudi Arabia. The US, UK, FRG, France, Japan and Saudi Arabia are permanent members of the Executive Board. Fifteen members are elected by various country groupings and vote on behalf of all the countries in their group, no split votes being allowed. China is a permanent member of the Executive Board in its own right, ie it does not represent any other country or group of countries.

The decline in US hegemony and the rapid growth of Japan as an economic and financial power in the 1970s and 1980s, has not yet filtered into changes at the IMF, where US domination remains uncontested. There is little evidence of recognition at the IMF and the central banks of the US and Europe of the growth of Japanese power in international financial affairs. It seems 'strangely anachronistic' that the power structure established at Bretton Woods, has only been marginally altered, in the face of major changes in the balance of economic power relations since the mid-1970s.²¹ Given all this it should be no surprise that developing countries exercise only a very limited influence in the Fund's decision-making process. A totally united group of developing countries (in practice very hard to achieve) representing nearly 65pc of the total population of the IMF countries can muster no more than 45pc of the votes. And the US has an effective veto on

major changes in IMF policy (including the allocation of votes) as such decisions require a 85pc majority. It has also become traditional that a summit meeting of the leaders of the biggest western industrialised nations, either the G5 or G7, is held prior to the annual IMF meeting. Major changes in IMF policy are invariably settled at such meetings, making the IMF meeting itself a mere formality. In recent years, however, and reflecting the tensions of an unsettled international mode of regulation, there have emerged differences among the major industrialised nations about issues such as how to deal with trade imbalances, exchange rate co-ordination and the like, as well as to some extent over how to deal with the debt crisis.

Yet control over the direction of international financial and economic relations still rests with the major industrialised countries. At the IMF, this control, which derives principally from their voting strength, is reinforced in numerous other ways. These include the fact that it is an uncontested tradition that the Fund's managing director is a West European and his deputy is a US citizen and that IMF staff members even those from developing countries are trained in the conservative tradition of the IMF and invariably support the United States position. Johnson comments that there is a strong tendency for IMF and US Treasury staff to be 'virtually interchangeable and even non-US staff tend to be selected on grounds of their congeniality to the US viewpoint.'²²

Thus given the inherently political nature of the IMF and its dominance by the Western industrial nations it should not be surprising that it began to play a central role as the 'financial sheriff' of the West and especially of the private international banks which until recently lent vast sums of funds to developing countries. As Abdulla concludes

Through appropriate conditions for its stand-by agreement and the country's stabilisation programme, the Fund imposes on the borrower the behaviour patterns which reassures transnational finance and the West as a whole. Governments which agree to be

economically timorous, socially conservative and politically docile can thus hope to obtain from the IMF a certificate of good behaviour, which is then supposed to give a green light to purveyors of commercial credit.²³

The principle of political neutrality, which the IMF espouses, is thus a totally deceptive one. For the IMF military dictatorships, including South Korea and Brazil are sometimes considered exemplary. It was, for example only after the overthrow of the Unidad Popular that co-operation with Chile was regarded as satisfactory. Given its origins within a particular configuration of power relations and its evolving role within the post-War global economy, the IMF in practice, has found it easier to deal with undemocratic, authoritarian governments who are likely to have fewer qualms about executing the specific policies which are the inevitable consequence of the IMF's monetaristic, laissez-faire philosophy. A member of the IMF staff is reported to have said to Rolf Knieper, 'not without a certain pride', that

the establishment of the military dictatorship in Ghana was the direct consequence of an IMF mission: a democratic government organized along parliamentary lines would have been incapable of effecting the stipulated course of action with due severity.²⁴

Despite their unhappiness with IMF prescriptions (and the occasional attempt to challenge the IMF and private banks²⁵) many developing countries have had little choice, given their integration into networks of world trade and investment, and the limited, virtually non-existent sources of alternative credit but to remain members of the IMF. Membership of the Fund became crucial, in the conditions of the post-1973 international economy, to the continued flow of loans from Western countries and major international institutional sources. Many developing countries are told by Western governments and private international banks that no rescheduling of debt or provision of credit would be made without a prior agreement with the IMF. Those that resisted (Jamaica, Nigeria, Tanzania, for example, at different times) found themselves facing severe economic and political crises.

Even Warsaw Pact countries such as Poland, Rumania and Hungary which have significant trading and debt exposure to the West have had little choice but to join the IMF, in order to qualify for further loans or to have their debts rescheduled. Since 1986, there have been suggestions that the USSR was considering joining the IMF.²⁶ In Poland's case, for example, private international banks were not prepared to grant it further unsecured loans or begin debt rescheduling talks unless Poland applied for IMF membership and so allowed its 'reconstruction programme' to be monitored by its so-called independent international agency.²⁷

However, while most countries have little choice but to go along with IMF conditions, the benefits of such associations (especially to the dominated classes) are dubious to say the least. It is far from clear that the objectives contained in Article I of the IMF statutes - balanced growth of world trade, higher levels of employment and rising real incomes have been facilitated by the IMF's method of operation - in particular the austerity programme that is the usual precondition for loans or access to private loans. On the contrary as Knieper observes,

mass unemployment, pauperization and inflation are frequently the consequences of such austerity programmes. Moreover, there has so far been no indication that these negative consequences are merely the trade off for a long-term economic recovery: not one of the countries included in the IMF programmes can be cited as proof for the postulate that employment levels and real incomes rise following a preceding phase of 'purging' austerity.²⁸

IMF 'assistance' therefore is hardly renowned for its success - except of course if one views this from the perspective of Western capitalist interests and those national capitals and states who use the IMF adjustment programmes as a justification for rationalization, cutting social programmes, pushing down wage rates and similar anti-working class austerity measures. This latter point must not be lost sight of. At the level of domestic politics, it is often convenient to make the IMF the scapegoat for 'austerity'. As Lipietz notes,²⁹ 'everyone-including the left -

admits in private that the irresponsibility of ...local leaders (sometimes makes) austerity inevitable.'

No one, especially those resident in developing countries which have had to live under conditions of economic austerity imposed by IMF conditionality, doubts the power and influence of the IMF in international economic relations. That the IMF is dominated by the US, which continues to maintain an influence at the IMF no longer proportionate to its relative power in international economic affairs is also not in doubt. The dominance of the US and other European countries has allowed for the continued exercise of IMF power in favour of a particular view of development, one which generally favours the promotion of free-market ideologies. But strategic and political considerations also, as the South African experience will demonstrate, shape the IMF's view and support even in cases where a country's economic policies may deviate from 'strict IMF orthodoxy.'

The exercise of this particular brand of power and influence within the world economy, does not imply that the IMF has been successful in terms of the objectives originally laid down in its Articles. As we have noted already, it has hardly been successful in promoting growth, employment and incomes in developing countries. In contrast to the post-War boom, most of the period after 1970 has not been one which has been characterised by robust growth and employment even among the major industrialised countries. Nor has the IMF been entirely successful in adjusting to the very changed circumstances of the post-1970 international economy. Adjusting to these new circumstances, ie facilitating the emergence of a new mode of regulating international economic relations, has been clearly identified as being a central task of the IMF after c1971. Amendments to its Articles first initiated in 1974 and made effective in 1978 and discussions over new guidelines for conditionality finalized in March 1979 are evidence of this search for a new role for the IMF. Despite these discussions, Buira has argued that the IMF entered the 1980s 'equipped with a set of

intellectual techniques and practices intended for and inherited from the very different international economic environment of the Bretton Woods system.³⁰ This is most apparent in the areas of exchange rate co-ordination, balance of payments adjustment, the adequacy of its lending, and the control of international bank lending. Each of these four issues will be discussed in turn.

The period 1970-1985, was one in which the role of the IMF was continually revised, often in an ad hoc manner. Its role as determined at Bretton Woods in 1944 arose out of an international economic environment that was based on fixed exchange rates. It was on that foundation that the IMF functioned from the end of World War II to 1971. The period immediately after the 15 August 1971 decision of the US to unpeg the dollar from gold (ie. effectively dismantling the fixed exchange rate regime established at Bretton Woods) was characterised by a great deal of uncertainty and ad hoc policy measures and actions in international economic relations. The IMF's response to the ending of Bretton Woods was not always conducive to promoting confidence in exchange rate co-ordination and policy making. Despite a de facto floating exchange rate system, the IMF only officially recognised floating rates in 1976 and only then abolished the official price of gold.³¹ The new guidelines for the IMF policy in regard to exchange rates and other issues, first discussed in 1974, proposed that the Fund exercise 'firm surveillance' over the exchange rate policies of its members and adopt 'specific principles' for the guidance of its members on these policies. By 1976 the IMF had not worked out these principles. As the Economist noted this was 'an admission of confusion, if not of total defeat...'³²

It is true that the Fund's ability to exercise surveillance over floating exchange rates and to establish principles for member countries on exchange rate policies has been complicated by the extreme cyclical fluctuations of currencies and the increasing degree of unilateralism which floating exchange rates have promoted. The need for member countries to adopt policies in regard

to exchange rates, which take account of their impact on the smooth functioning of the international economy, a central characteristic of the Bretton Woods system, has not been urgent or even necessary under floating exchange rates.³³ The result, as Flight and Lee-Swan note, is that by the mid-1980s, 'floating exchange rates are being blamed for the world's new economic problems and many are calling for some form of fixed exchange rate management.'³⁴ This search for a new order was apparent for example in the attempt by central bankers to achieve exchange rate stability by unlimited foreign exchange intervention. (The 1987 Louvre Accord)

The demise of US hegemony, and the gradual emergence of three new power blocs in the international economy (the US, Western Europe and Japan, each with different views on the way to deal with the problems of the international economy) has also complicated decision making at the IMF and at G5, G7 and G10 meetings. While they seem to agree on the broad ideological orientation and role of the IMF in the world economy, the twenty or so IMF Executive Directors have had such a variety of differing proposals over questions such as an appropriate exchange rate policy and balance of payment adjustment mechanism, that they could not agree on any one proposal.³⁵ There are numerous obstacles in the way of a return to fixed exchange rates. These include, in the main, the size and influence of the international financial market which flourishes in the climate of low surveillance and minimal control made possible by the floating rate system. It is equally clear, however, that floating exchange rates, have not been an unambiguous success in regulating exchange rate policies. The IMF has therefore largely failed in successfully introducing and maintaining an exchange rate system so essential to stabilising a new mode of regulating international economic relations. As we have already noted, maintaining exchange rate stability is a central function of the IMF and is clearly set out in its Articles of Agreement.

The IMF has also not been very successful in establishing and stabilising another crucial aspect of its responsibilities as the

primary financial institution regulating international economic relations, ie in developing a successful process of adjustment to balance of payments imbalances. The broad mechanisms for such adjustment under fixed and floating rates were noted at the outset of this chapter. Under floating rates part of this adjustment is directly via changes in the exchange rate, and floating rates have made it hard for the Fund to exercise control over domestic economic policies affecting a sovereign country's exchange rates, let alone the exchange rate itself, as we have noted above. The IMF has failed to strike the proper balance between handling deficits in balance of payments through adjustment of economic policies as against itself funding such deficits. In the 1970s finance was relatively more available and more use was made of this mechanism, whereas the problem has become acute in the 1980s, as the availability of funds from the IMF and banks have dried up relative to the size of the deficits and in the wake of the debt crisis.

It has also not been possible to achieve symmetry as between members with deficits and those with surpluses nor between developing and developed countries. As de Vries notes

Since 1977 only developing members have used the Fund's resources and there is an understandable perception of asymmetry between developing and industrial members in that the conditionality applied to the use of the Fund's resources has significantly affected developing members, while surveillance under Article 1V...seems to have had little practical effect on the large industrial members.³⁶

One of the most vigorous criticisms levelled at the IMF since the early 1970s, has been over the paltry sums it has lent and continues to lend to deficit countries in the developing world. in terms of objective five of its Articles of Agreement. In the 1970s Britain, for example was a major beneficiary, and as we shall see South Africa was a major beneficiary, even as late as 1982, when it was not always clear that South Africa qualified as a 'developing country.' The growth of bank lending and (for a time) the largely successful co-operation between the IMF and the banks,

in a sense bailed the IMF itself out of this problem. As the Economist, noted, 'the IMF (has) played too small a part in helping to finance the huge \$37 billion deficit in 1975 of the non-oil developing countries. The role of lender of last resort to the poor countries fell on private banks, and far too many last resorts there were.'³⁷

The growth of bank lending, and the IMF's failure to control bank lending in the late 1970s and early 1980s, fuelled the debt crisis, which created an instability and uncertainty in the conduct of international economic relations. Though less likely to induce a collapse of the international economic system, such as it is, the debt crisis and the instability and uncertainty it has generated, persists to this day. If, as we would hold, the existence of a climate of stability, is a crucial element of an international regulatory apparatus, then again the IMF has fallen short in its role, especially in the 1980s. The build-up of the debt crisis itself is discussed in the following section of this chapter.

In summary, we have argued in this section that the IMF has become powerful and influential, mainly vis-a-vis developing countries, who are forced to turn to it in times of external economic difficulty - either to seek its loans or its stamp of approval which has become a precondition for private bank loans. The needs of developing countries in this regard have been high, and the significance of the IMF's role decisive, in the period since the oil crisis of 1973. It is also clear, however that the IMF has been less successful in harmonising its role within and stabilising a new international financial and monetary order to replace the system established at Bretton Woods in 1944, which finally collapsed in the early 1970s. This latter point has been illustrated in relation to the four issues discussed above.

One final point briefly referred to earlier in this Chapter needs to be clarified before we conclude this general discussion on the IMF. It concerns what might at first appear to be a highly

functionalist interpretation of the role of the IMF in the post-war global economy. The IMF was not in the first instance consciously planned only to advance accumulation or resolve crises in capitalist industrial countries. Nor to take the obverse case was it planned to secure the underdevelopment of the 'Third World' in this cause. In a sterilised form the principles underlying the IMF's foundation, its objectives, and in many cases, even its prescription of financial discipline, are intrinsically sound, judged against most developmental criteria. The problem centres largely 'upon how the IMF, or more precisely the team of orthodox technocrats which make it up plays its role.'³⁸

Given certain historical, economic and political imbalances in international power relations in the immediate post-war period, it developed in practice that this team of technocrats have generally come to support a particular view of development and of development goals and a set of policies to achieve these targets. The weight and power of the US has, in ways already noted, ensured its predominance in IMF decision-making. In practice therefore, the IMF as a central institution within the global post-war mode of regulation took on, deepened and extended its lending and supervisory role in a way which stabilised and advanced a particular dominant economic and political configuration. In short, the IMF's role as an institution within the global mode of regulation became harmonised and stabilised within the post-war Fordist regime of accumulation. The relationship helped to ensure a relatively crisis-free reproduction of social relations for the long post-war boom. But the relationship continued to exist and developed in that form, because in fact it succeeded in ensuring a relatively crisis-free accumulation. To argue further that the IMF was specifically created with the intention to resolve crises in capitalist accumulation would be functionalist in the extreme. But even if it was deliberately created to perform this kind of 'sinister' role, we would argue that circumstances arose after 1970 which seriously affected its ability to do so successfully.

In the post-1973 period for example, the IMF struggled to adjust its policies and overall role in an era of decline in US hegemony, the emergence of new economic powers, a new floating system of exchange rate determination and a rapid growth of private bank credit and bond issuance. In the wake of these problems the IMF found itself searching for a new role and mode of operation in an attempt to cope with conditions not anticipated at its founding nearly half a century ago, while still attempting to fulfil its tasks. In analysing the role of the IMF in the world economy, one is therefore practicing no more than an 'a posteriori functionalism'.³⁹ Everthing works (to paraphrase Lipietz for the purposes of this example ⁴⁰) as if the IMF was planned and designed for the express purpose of promoting accumulation in the 'centre' and underdevelopment in the 'periphery'.

(3) THE LENDING SYNDROME: INTERNATIONAL BANKING AND CREDIT SINCE THE 1970s

Private international or transnational banking had its origins in the financing of trade and the outflows of capital, mainly from Britain to its colonies, in the middle of the 19th century. The internationalisation of banking was reinforced by the centralisation and concentration of capital after 1880. However the more rapid development of such banking activity only occurred after World War II. After the war, the larger United States banks opened overseas branches, especially in Europe, to service the US multinational corporations which began to penetrate the economies of Europe, and later Asia, Latin America and Africa. And so the increasingly international organizations of production triggered the development of an international financial market, in which dollar-denominated lending and borrowing became a central feature. If a bank in Europe lent in dollars it could, by being European-based, escape the banking regulations of its home country and because loans and other financial transactions were denominated in dollars it fell outside the regulations of any European government.

Because this 'market' developed in Europe it became generally known as the Euromarket. This Eurocurrency (predominantly Eurodollar) market thus developed out of the new conditions of accumulation in the post-World War II capitalist world economy.

The Eurodollar market was stimulated by the dollar reserves of the USSR and China, who, since 1949, sought European-based banks for their dollar reserves, where they could not be impounded by the US government. US banking regulations - such as Regulation Q, which imposed a ceiling of the interest rate that banks could pay for deposits in the US - provided a further impetus to the growth of the Euromarket as US companies deposited any idle earnings in the Euromarket where the interest rate was not controlled.

However, while the international banking sector, especially the Euromarket continued to grow during the 1960s, it was only in the period after 1973 that it came to play a predominant role in international capital movements. Up until then it was still widely believed that banking was in the main a national, rather than an international phenomenon. Writing in 1967, for example, that doyen of banking studies, Richard Sayers, commented that 'banking organisation does not easily straddle national frontiers', so that, 'the banking business of the world is organised in the main on national lines'.⁴¹ In the time since Sayer wrote that, a remarkable transformation has occurred in the field of international banking. Banking is now highly international and becoming more so daily. Importantly too, international banking is now extremely innovative and no previously conceived hurdle or barrier to its further internationalisation appears insurmountable.

In the relatively stable macroeconomic environment guaranteed by the post-war global mode of regulation, banks and other financial institutions and the attendant regulatory arrangements, primarily reflected domestic concerns. Increased uncertainty about macroeconomic conditions and growing fiscal and current account imbalances, forced changes in financial systems and arrangements

by the early 1970s. The abandonment of fixed exchange rates was accompanied by a rapid expansion of cross-border financial flows, and by an increased variability in real and nominal exchange rates. These developments were to continue in varying degrees in the floating exchange rate era which followed. The uneven pattern of economic activity, higher and variable rates of inflation, growing sectoral and international payments imbalances and finally profound technological advances in telecommunications and data processing, all contributed to the changes in the nature of financial systems and regulations. In particular these general conditions and circumstances stimulated the growth of international bank credit and bond issues after c1973.⁴²

Several specific factors account for the rapid growth and diversification in lending, especially to developing countries, after 1973. These include on the supply side, the recession in the advanced capitalist countries since c1971 which curtailed loan demand there; the abandonment of more conservative banking practice in favour of a more aggressive approach at about this time and the high profits earned from lending to some countries, although banks often operated on small margins in the early 1970s. On the demand side the principal factors stimulating international banking operations included the ever increasing demand from developing countries seeking balance of payments financing after OPEC I and the inadequacy, inflexibility and social and political costs often associated with borrowing from the IMF. Analysts differ, however, in the importance they assign to these supply and demand factors in affecting international bank lending and bond issuance after the early 1970s. Let us briefly examine these factors as they unfolded in the international economy of the 1970s and 1980s.

Growing unemployment and inflation throughout the industrialized countries led to a decline in investment opportunities in these countries. International banks suddenly faced with a shortage of 'high quality' borrowers in these industrialized countries began to lend, at rates of interest they would never have considered in

more prosperous times, to a select group of rapidly growing middle-income developing countries including Brazil, South Korea and Mexico, 'whose strong economic performance at that time was based on the extraordinarily rapid growth of international trade and buoyant commodity prices which marked the final stages of the post-war boom.'⁴³ Low interest rates (both nominal and real) and low surveillance - because private international bank loans came without the strings usually attached to, say official IMF loans and credits - encouraged those middle-income developing countries to borrow.⁴⁴

The 1973 oil price increase set off a quantum leap in private international bank lending. Those banks faced with a combination of very large inflows of funds from the OPEC countries and a 'relatively modest credit demand from domestic customers'⁴⁵ were happy to finance the enormous increase in loan demand from oil-importing developing countries attempting to finance their increased oil deficits. They did this by transforming relatively short-term deposits into long-term loans through the technique of roll-over credits. With little or no control over their activities private international banks continued lending vast amounts to developing countries in the mid to late 1970s. 'Bankers were quite literally falling over one another in their attempts to press new loans on developing countries'⁴⁶.

Bankers' risks were to some extent reduced by the introduction of variable interest rates on loans. However, this had the (negative) effect of making borrowers more vulnerable to increases in interest rates. The growth of syndicated loans, where hundreds of banks shared the risk of any single loan, further reduced the risk to any bank but increased competition between banks to lend to developing countries. This led to a general and gradual lengthening (from 5 to 15 years) in the terms of loans, while spreads (charges over and above the market rate of interest, usually LIBOR, the London interbank offer rate) were squeezed narrower. In this period (1974-1978) international banks appeared to pay little attention to

borrowing countries economic/political situations and policies, and took little account of what those borrowers did with the funds. Under such easy conditions, middle-income and some poorer, developing countries, especially in Latin America, tended to overborrow and a number of oil-exporting countries, including Nigeria, Indonesia and Mexico, also took advantage of the ready availability and low-cost of loans to embark on economic expansion plans.

Table 4, illustrates the high level of loan flows from Bank for International Settlements (BIS) reporting banks to Latin American, other developing and East European, countries in the period 1979-1981 and its dramatic decline thereafter.

Various factors contributed to the critical deterioration of the international loan and financial market after 1982 as interest rates increased and there was a sudden fall in the number of longer-term loans available to developing countries. There was firstly the 'unfavourable' effects on both world trade and the terms of trade of many borrowing countries consequent upon the tight monetary and anti-inflationary policies introduced in the US and Europe. Through its effect on interest rates these policies caused a sharp jump in the cost of debt servicing. Secondly the sharp increases in oil prices in 1979 (OPEC II) brought with it a slow-down in economic activity among non-oil developing countries. Thirdly political upheavals in Iran and Afghanistan for example, tended to caution international banks, causing them to cut down on certain loans and/or to increase the costs of such borrowing.

For all this, the middle-income developing countries continued to rely on private international bank credit rather than on the IMF. Two factors account for this. First, as we have already noted, such private credit was at first largely free from the economic policy conditions usually attached to IMF loans. Secondly, because until the introduction of the IMF's Enlarged Access Policy (EAP) in September 1980, the IMF's resources were limited in relation to

TABLE 4

LOAN FLOWS FROM THE BIS REPORTING BANKS TO DIFFERENT
BORROWING GROUPS, 1978-1984 (\$ Billion)

| YEAR | TOTAL | LATIN AMERICAN OTHER LDC EASTERN EUROPE | % LATIN AMERICAN ETC |
|------|-------|---|-------------------------|
| 1978 | 208.8 | 34 | 16.28 |
| 1979 | 204.2 | 40.5 | 19.83 |
| 1980 | 208.6 | 41.5 | 19.91 |
| 1981 | 216.8 | 37.4 | 17.26 |
| 1982 | 134.4 | 9.7 | 7.21 |
| 1983 | 55.3 | 4.1 | 7.41 |
| 1984 | 57.3 | 1.4 | 2.44 |

SOURCE: Adapted from Portes and Swoboda, 1987, p220

borrower needs and bank resources. From the 1970s, however, further recourse to bank credit had become conditional upon IMF credit, which took the form of a small pilot loan and was accompanied by a 'stabilization programme' to monitor and direct domestic economic (and implicitly political) policies and options in borrowing countries. By the 1980s the external debt situation of some larger debtor countries had become critical. The deterioration in international financial stability which followed was brought about consequent upon some serious blows to the confidence of private international banks and their capacity to see off the growing debt crisis.

The first of these came towards the end of 1980 when a deterioration in Poland's economic and political situation forced that country into negotiating an across-the-board debt rescheduling arrangement and accepting IMF surveillance. The second blow came from the Falkland crisis in 1982. Despite Argentina's assurance that it would stand by its financial obligations, a wave of panic swept through the international private banking world, as bankers became concerned about Argentina's, and other Latin American countries' ability to service their debt. A third factor affecting sentiment on the international financial market was the absence of growth in the industrial economies arising out of the depth and

persistence of the economic crisis in the advanced capitalist countries. This seriously affected the ability of these industrialised countries to absorb the increased exports of developing country borrowers, who had little choice but to export in order to meet their debt servicing cost. As Brett comments this led to a situation in which 'borrowers have to export or bankrupt the western banking system, while western countries have to exclude those same exports or bankrupt large sections of their own manufacturing industries.'⁴⁷

The final blow to, what the Bank for International Settlements (BIS), calls the 'morale and the smooth working of the international credit market' came in mid-1982 with the Mexican debt crisis sparked off a massive flight of (Mexican) capital to the United States. The BIS commented that

in anticipation of steadily rising oil reserves Mexico had embarked some years earlier on policies of economic expansion which would probably not have been sustainable even in a more propitious world economic environment. Moreover...Mexico had been covering an increasing part of its very large external financial requirements at short term, a policy which had been clearly visible well before the outbreak of the crisis...⁴⁸

The effect of all these factors has been a virtual standstill in new private international bank lending since about 1983, and the expanded policing and debt negotiating and debt rescheduling function for the IMF in world financial matters. Private international banks in the meantime have had little choice but to roll-over capital repayments for future years. The one exception to this has been South Africa. Cut off from access to IMF loans in 1983, South Africa was denied roll-over and extension facilities by Chase Manhattan in August 1985, a decision which prompted other banks to follow this lead, thereby forcing South Africa to declare a unilateral debt moratorium and later to attempt a rescheduling of its debt without, as far as can be ascertained, the assistance of the IMF.

The decline in new bank lending has, however, been matched by a vigorous rise in international securities or bond issues from the mid-1980s. As Lewis comments

The pattern of current account deficits and surpluses has altered dramatically in the mid-1980s. For 1985, the US had the largest current account deficit (\$115 billion) with the other industrialised countries having the largest current account surpluses. With Japanese and German lenders preferring to acquire securities and other claims issued directly by the United States, capital flows are running in the main amongst the industrial countries. The wealth transfer process has reverted to more 'traditional' channels and international financing has returned to the pattern typical in post-war years before 1972 when it was normal for international bond issues to exceed new international bank lending.⁴⁹

Developments in the international financial market between 1970-1985 may therefore be viewed as having two distinct phases. First, the massive growth in private international bank lending fuelled by the depressed state of, and hence low investment demand in, industrialized countries, the new conditions in the market arising out of the consequences on external balances of OPEC I, and the absence of co-ordinated policies and controls over the nature and terms of international bank lending. The growth of international bank lending in this period was sustained by, among other forces, the banks' desire to diversify risks by granting loans with different risk characteristics, different interest rate adjustment methods and different funding requirements. This was also a time when the entire international monetary and financial system was itself experiencing crisis and largely ad hoc adjustment to very altered circumstances. This first phase lasted from the early 1970s, but especially after 1973, until about the end of 1979. In this time of uncertainty and fluidity in international economic relations, the task of recycling petrodollars, 'which was so crucial to the maintenance of international economic stability...was assigned, almost in its entirety, to the international private banks.'⁵⁰

In the second phase, from 1980 to 1985, there came about a sharp deterioration in the international borrowing environment, a persistence of the recession in industrialized countries, the effects of OPEC II on external debt, higher rates of interest, a contraction in the volume of world trade, political upheavals and uncertainties - all of which created a shortage of good quality institutional investors seeking an internationally-diversified portfolio of loans ⁵¹ and led to a marked decline in new international loans and the emergence of the debt crises and widespread rescheduling arrangements on existing loans. The growth of the securities or bond market and of floating-rate notes and bonds were the main (positive) developments in the period.

(4) IMF AND PRIVATE BANK INTERACTION

The separate and co-ordinated responses of the IMF and private international banks to the growing problems (and opportunities) in the international economy after c1970 have been shaped both by the fact that they are organisations with vastly different objectives as well as by the specific and fluctuating circumstances which they each confronted in this time. However, their complementary role vis-a-vis lending to developing countries has led to an almost conspiratorial conceptualisation of their relationship in some circles. Despite the circumstances arising out of the crisis in controlling international economic relations which forced an increasing interaction between the IMF and private international banks, it would be incorrect to characterise their response to the crisis as some sort of conspiracy against developing countries.⁵² For while there are obvious points of commonality between the IMF and private international banks there are also clearly distinguishable divergences or difference of opinion over how specific problems should be handled. Thus, for example, private banks have generally applauded the conditions that are most often set for borrowing countries by the IMF. Irving Friedman of First Boston Corporation commented in 1983, 'like the banker, the Fund

does not like inflation, budgetary deficits and monetary excesses; it dislikes inefficient public sector activities, subsidies, artificial public utility pricing, domestic price controls, discrimination against foreign investment and so forth.⁵³

Private banks, however, do not always favour the deflationary policy which is the consequence of such an economic ideology. At the same time the IMF has viewed private bank lending to some countries such as to Peru for example, as a way for these borrowers to avoid or delay the implementation of IMF recommendations. These differences arise, as Bernal has suggested,

from the different and specific logic which informs and determines the behaviour of the IMF and the banks. The IMF has a designated [sic] role to perform in world capitalism. The ambit and nature of this role is determined by the developed capitalist countries which control the IMF. The transnational banks are driven by profit maximisation on a world scale.⁵⁴

The interdependence that does exist between the IMF and the banks is therefore neither mutual nor symmetrical. The IMF relies on banks to utilise the investment and loan opportunities arising out of its policy recommendations, especially as it cannot itself provide the necessary financing to borrowing nations. The organisation hopes that the seal of approval it grants to borrowers would be sufficient to induce private banks to lend, although, as in the case of Jamaica in 1977, such lending is not automatic.⁵⁵ The IMF has in fact few formal channels to influence the banks and no formal arrangement and instead relies on the formidable network of informal contacts that are a feature of the way in which the international financial system operates. On the other hand, banks rely on the IMF to reduce the risk of lending, by stipulating policies which, for example, ostensibly promote the ability to make repayment or ease the mechanisms of repayment.

Private international banks therefore appear to rely largely on the IMF to affect national economic policy in borrowing countries in a way which facilitates their operations. However, this is not

to suggest that banks do not have an 'independent' influence over economic development strategies in borrowing countries. As Mintz and Schwartz point out, though their effects are problematic and contingent, banks are nevertheless a source for many general trends in economic development and changes in industrial profiles. Banks have recently, and especially after the Peru case, become 'more comfortable' in their role as policy makers, as it were, in borrowing countries. In Peru, Chase Manhattan, leading a consortium of banks, forced the Government to eliminate a tax, which it was utilising to subsidise the purchase of food by the poor, so as to maximise the portion of government revenue to be used for debt financing. Ultimately, as Mintz and Schwartz pointed out 'food subsidies were eliminated, wage controls instituted, and three left wing cabinet ministers were expelled from the government.'⁵⁶ Business Week noted that the banks by 'passing judgement on Peru's economic performance raised troublesome questions about foreign business interference in the affairs of a sovereign state'.⁵⁷ While negotiating or renegotiating loans private international banks have recently become themselves quite 'adept at extracting desired concessions',⁵⁸ of which in the 1970s 'fiscal discipline', and 'increased exports' or policies directed towards these ends, figured most prominently. In contrast to multinational corporations, however, banks remain less concerned with the way their funds are ultimately utilised.

Private international bank activities and intervention in foreign countries, have in recent years been facilitated by the creation of an extremely sophisticated network of communications systems, operating units, offices, personnel and a strengthening of bank analytic capabilities. These and other advantages which private international banks possess, have even led some governments in the US or Europe to see in such international activities

a means of advancing specific policy objectives of the state - for example, diversifying raw materials sources, expanding exports to reduce a trade deficit or create jobs, providing financial support (in some cases disguised as aid) to a country

whose economic and political stability is of fundamental importance to the state, or conversely denying such support to an objectionable foreign regime.⁵⁹

As we shall see later in Chapter 4, the US Treasury and State Department in the mid-1970s successfully squeezed South Africa, by turning off the money taps (foreign bank loans) in the US and Europe so forcing the Vorster government into pressurising the Smith regime in Rhodesia, into accepting the inevitability of black majority rule.⁶⁰ However, private banks themselves, have generally been more reluctant to demand overt political changes as a precondition for loans or debt rescheduling, as the South African experience after 1985, which is discussed in Chapters 5 and 6, testifies to.

The relationship between private banks and the IMF has tended to fluctuate in the rapidly changing environment of the post-Bretton Woods period. We would argue that in the 1970s and early 1980s private international banks tended to support rather than obstruct the role of the IMF in relation to lending to deficit countries. In the 1970s banks supported lobbies in the US and elsewhere which argued for an increase in funds to the IMF. By contrast, in the 1960s banks preferred strategies and policies which restrained the lending role of the IMF in order to leave room for their own lending.⁶¹ By the 1970s banks appeared less concerned by any potential competition from the IMF and their respective roles tended rather to complement one another. Given the uncertainty about the precise role of the IMF in the post-Bretton Woods era, its limited lending resources, and the simultaneous growth of the international financial market, which itself emerged out of the crisis of the 1970s, it was convenient for the IMF and profitable for the banks to take on the role of recycling dollars.

The fact that no mechanisms for controlling the flow of these funds existed, however, resulted in a mounting debt crisis from the early 1980s and growing international fragility and instability. The absence of an adequate regulatory mechanism affected the process

of adjustment to balance of payments deficits and provided some debtor countries with a way of avoiding the kind of domestic economic adjustment which was forced upon them in terms of the Bretton Woods arrangement. The availability of international credit allowed some of these countries to turn their deficits into increased indebtedness. Whether these countries received private bank assistance often depended upon the IMF's stamp of approval and the acceptance of a IMF restructuring programme. However, private banks' search for profitability especially in the period 1973-1979 and the increasing difficulty faced by deficit countries in servicing their debts at a time of global recession and often declining demand for primary commodity exports, resulted in an exponential and uncontrollable growth in bank lending.

In these circumstances, the effectiveness of the IMF's (or the banks own) supervision of economic restructuring declined. In other words bank lending grew because, in the absence of new loans, the probability of banks recouping any existing interest and capital repayments diminished. Threats to international financial stability posed by defaults as debtors began to recognise the declining power of banks in this situation also forced banks to maintain lending levels. By c1983, however, because of BIS, IMF and World Bank loans, and debt rescheduling, the immediate threat of a total collapse of an already fragile international economy receded to some extent, and net international bank lending began to decline sharply.

Thus the short-term advantages to banks and the IMF in dealing with the problems of mounting deficits on the one hand and surplus petro-dollars on the other, by increasing bank loans to deficit countries without adequate regulatory mechanisms, was to turn later into a serious problem for setting up or stabilising a new international monetary and financial system, a new global mode of regulation. After c1983 co-operation between the banks, the major industrialised countries and the IMF in an effort to arrive at a co-ordinated response to the debt crisis began to break down. Thus

although it was reported that the international banking community supported the Baker initiative of addressing the debt problem,⁶² the initiative failed primarily because private banks did not respond positively enough to one of its key components, ie increased bank lending to debtor countries in support of comprehensive economic adjustment programmes to be supervised by the IMF.

As banks and the IMF either joined forces as they did for most of the 1970s and early 1980s or acted independently to influence developments in the mainly debt-ridden developing nations, it would appear as if their actions must have had only one effect ie a determining and undoubtedly detrimental influence on these countries. As Stallings puts it,

[s]uperficially, the crisis seems to have severely undermined the power of the state as the banks and the International Monetary Fund (IMF) joined forces to demand austerity programs, and a lower level of state participation in the economy, in exchange for debt relief. The current situation thus appears at first glance to support the more extreme versions of dependency theory whereby external actors have a determining and detrimental influence on the Third World.⁶³

However, as her study of international lending to Peru over sixty years shows, international loans may actually strengthen the state before, say, the debt crisis strikes, and the powerful state which emerges does not easily fade away.⁶⁴ Gordon has argued that 'the role of the state [globally] has grown substantially since the early 1970s; state policies have become increasingly decisive on the international front, not more futile.'⁶⁵ A significant portion of international bank loans in the last fifteen years have gone directly to the state. The large volumes and low strings attached to these loans, raised, rather than diminished, the potential for increased national or state autonomy, including for example over the hegemonic fraction of the economically dominant class. Private international loans have a distinct advantage over, say, direct foreign investment. For while the essence of direct foreign investment is that the investor maintains control over the

investment, private bank lenders do not monitor the use of their capital as closely.

The problem, however, as Stallings points out is that

these loans can be cut off any time if lending conditions change in the international capital markets or if lenders become worried about a particular state's capacity to service its debt. The latter is not unlikely since private loans are usually characterised by high (and floating) interest rates and short maturities and are thus prone to cause balance of payments difficulties.⁶⁶

This potential danger of becoming 'mortgaged' to the international banks also obviously extends to private sector borrowers. These points, both the potential growth of state or national autonomy and the danger of being cut off from the international financial markets, all have significance for post-1970 South African experience, as we shall note in the following conclusion, and again in later chapters.

(5) CONCLUSION

Changes in aspects of the international regulatory system in the search for a new global mode of regulation had a significant impact on South Africa in the 1970s and 1980s. The move to flexible exchange rates placed fewer restrictions on individual nations in deciding on economic policy and allowed countries like South Africa to pursue and experiment with more nationally-based policies and strategies in areas such as fiscal, monetary and exchange rate policy and development strategy. For unlike fixed exchange rates, flexible exchange rates placed a lower premium on control, supervision and the need to be concerned with the impact of national economic policy on international cooperation and coordination. Flexible exchange rates also helped to 'free' the gold price, though with conflicting implications for South Africa. The generally upward (though erratic) movement in the price of gold

until 1980, was to prove an important windfall for South Africa in an era of crisis in its domestic economy. Despite the fall in its price from over \$800 an ounce after 1980, gold continues to be a vital foreign exchange earner for the South African economy. At the same time, however, the often rapid changes in the gold price, have undoubtedly introduced an element of instability into the South African economy, which has contributed to the crisis in the economy and complicated any strategy for resolving this crisis. These issues are taken up in Chapter 3.

IMF assistance to South Africa in the mid-1970s and again in 1982 was made with little or no conditionality and the monetary and psychological support South Africa received from the IMF, at a time when the Fund was itself struggling to establish a new role for itself in the changed circumstances of the post-1973 world economy, was of no small significance to South Africa. When finally the IMF cut off assistance to South Africa in 1983 and the banks followed in 1985, South Africa was left to deal with with very serious problems.

The growth of the international financial market, and in particular its syndicated loan segment, was to prove an important source of international credit for the South African state, parastatals and private sector, especially after bondholders temporarily deserted South Africa in large numbers in the wake of political instability around 1976. The state and parastatals used private international bank loans to embark on a massive programme of strategic infrastructural investments in the mid-1970s. The relatively higher degree of self-sufficiency in armaments, infrastructure and energy, among other developments, these investments made possible is perhaps one reason why the apartheid state has been able to resist international economic pressure with somewhat greater success since the mid-1980s, than most other developing countries faced with similar disabilities. The development of a relatively strong national economy, itself creative and resourceful, may have allowed South Africa to weather this storm, but that there was a storm,

there can be little doubt. In the second half of the 1980s, the absence of new foreign loans and or IMF assistance, threats to foreign exchange reserves, and a falling rand, all contributed to the continuing economic crisis in South Africa, despite a marginal improvement in the country's relations with some European banks after 1987.

The impact of the changes in the international economy on the state of the South African economy and on the pattern of South Africa's international economic relations will be examined in Chapter 3. The more detailed studies of South Africa's relations with the IMF and banks follow in Chapters 4, 5 and 6.

ENDNOTES

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3. de Vroey, 1984, p61
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6. de Vroey, 1984, p62
7. Aglietta, 1982; Kahn, 1988, p2
8. Kahn, 1988, p3
9. de Vroey, 1984, p63
10. de Vroey, 1984, pp60-63; Lipietz, 1986; Lipietz, 1984; de Vries, 1987
11. de vroey, 1984, p63
12. Gordon, 1988, p63
13. See for example Payer, 1974, Hayter, 1981.
14. IMF Articles of Agreement, 1946
15. Angola, whose application for IMF membership was considered in July 1989, became the Fund's 152nd member. See Africa Analysis, 07.07.89.
16. Evans, 1985, p119
17. Green, 1985, p63
18. LAB, 1983, p13
19. Gisselquist, 1981, p217
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21. Flight and Lee-Swan, 1988, p167
22. Johnson, 1977, p108
23. 1980, p51
24. 1983, p42

25. See for example Brazil's decision to suspend interest payments in 1987.
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27. Posulla, 1984, pp68-9
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29. Lipietz, 1987, p176
30. Buirra, 1983, p117
31. Economist, 17.04.76
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44. See for example Bernal, 1982; Lewis, 1987.
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47. Brett, 1983, p220
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49. Lewis, 1987, p46
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52. This point is well made in Bernal, 1982.
53. Friedman quoted in IRRC Research Monograph, 1985
54. Bernal, 1982, pp89/90
55. James, 1983, p94
56. Mintz and Schwartz, 1986, p93
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58. Mintz and Schwartz, 1986, p94
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60. See for example, Johnson, 1977, p241.
61. Gisselquist, 1981, p214
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64. Stallings, 1985, p257
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CHAPTER THREE

ECONOMIC CRISIS AND THE TRANSFORMATION OF SOUTH AFRICA'S
INTERNATIONAL ECONOMIC RELATIONS, 1970-1985

(1) INTRODUCTION

In Chapter Two, we examined the changes in the role and functions of the IMF and private international banks in the world economy in the period after the first oil price shock of 1973. These developments were among the central changes in the attempt to restructure the mode of regulation on a global scale. However, we argued there that despite changes in the post-war regulation of monetary and financial relations, a new global mode of regulation was not successfully stabilised. The main objectives of the present Chapter are, first, to examine the effects of some of the changes in the global monetary and financial system on South Africa, and to set out the central features of the crisis in the South African political economy after c1973, a crisis which signalled the breakdown of South Africa's post-war regime of accumulation and mode of regulation.

Secondly, this chapter examines the structure of and changes in South Africa's international economic relations since the early 1970s. This will involve an analysis of South Africa's changing patterns of trade, investment and technology relations with the rest of the world. The analysis attempts to show how the structure and pattern of South Africa's international economic relations was transformed by changing international and domestic forces. This section also examines some of the inherent and acquired strengths of the economy, especially the importance of gold exports, technological developments in armaments and mining, and the national state's use of foreign loan financing for strategic and infrastructural investment, which helped though only for a limited period, to protect the country against some externally-generated shocks.

Finally, the chapter seeks to show that, South Africa's international economic relations came in this period to be increasingly dominated by questions of international finance, mainly in the form of its heavy borrowings from the IMF and private international banks. This will then set the stage for the more detailed analysis of these developments which follow in Chapters 4 and 5.

This analysis attempts to do more than coincidentally or conveniently juxtapose crises and change in the global and domestic mode of regulation and regime of accumulation on the one hand and the transformation of a nation state's international economic relations on the other. We would argue that crises and change in these areas in the context of the world economy of the 1970s and 1980s, have in fact combined to profoundly alter the central features and nature of a country's international economic relations, ie they have altered the balance of the three main component parts of these relations, ie trade, direct foreign investment and international loan finance. A combination of these changes have, for many developing, middle-income and even industrialised countries since the early 1970s, had the effect of biasing finance at the expense of trade and direct foreign investment - if not absolutely then certainly in relation to the weight of these components as they existed in the period between the late 1950s and early 1970s. At the very least, the implications of the massive growth of international loans and credit for a country's relations with the world economy and for its own stability has been catapulted to the centre of the concerns of many countries since the early 1970s. This is true even for the US, though in ways different to that of developing and middle-income developing countries. As Smith has pointed out the international debt crisis has resulted in a stunning case of 'reverse dependency' in the form of the 'utter dependence of the US financial system on the major debtor countries of the Third World.'¹

The link between global crises and change and their effect on international economic relations has not escaped the attention of regulation theorists, such as de Vroey and Lipietz in particular, but remains somewhat underdeveloped. Lipietz has remarked how in the wake of the first oil price shock and other global developments, international bank finance (and, it may be added, IMF loans) came to replace direct foreign investment as the most important item in the external accounts of many middle-income developing countries and the NICs, such as South Korea.² Developing these concerns, this chapter and the following ones argue that some countries such as South Africa, who were at the end of the long post-war boom phase, were able to recognise and capitalise on some of these global changes to pursue national strategies for economic, infrastructural and technological development which enabled them temporarily to stave off economic decline though at the cost of a what for many was a debilitating financial vulnerability some years later. This process, which in South Africa's case took the form of borrowing on a massive scale from international banks and bondholders, had the effect of transforming the country's international economic relations.

But additionally we would argue that domestic economic crises and stagnation also contribute to this transformation of a country's international economic relations. In examining the complementary/competing relation between direct foreign investment and international bank finance, Gordon, for example has argued that when an economy 'has become stagnant and unstable, investors tend to move their capital out of productive investments - because of increasingly cloudy longer-term prospects - into short-term financial investment.'³ So domestic crises may induce both shifts between major items in the external accounts of nation states (for example among the categories of trade, direct foreign investment and bank loans) as well as changes within each category (for example in the maturity structure of bank loans).

In the South African experience the failure to replace the post-war model of industrialisation based on import-substitution, with say, an internationally competitive, manufacturing-based export sector, rested partly on a variety of domestic economic, institutional and political constraints. These included the collapse of post-war regulatory arrangements, such as the racially-skewed, yet stable production-consumption accord and the growth of a militant trade union and anti-apartheid resistance culture which threatened the institutional concordance governing capital/labour relations and the very foundations of political stability in this country.

Despite the relatively advanced state of South Africa's technological and manufacturing sector judged against those of comparable countries, (a point we underline strongly in this chapter) it is true that the country failed in the 1970s and 1980s to develop an internationally competitive export sector which would have facilitated its insertion into the 'new international division of labour' in the way which characterised the performance of some of the Asian NICs, for example. Part of the reason for this failure rested on the state's inability, given the heavy and competing demands it increasingly faced as the economic and political crisis deepened, to support such developments by active intervention on the production side. In short, these and other factors acted to limit and stunt the growth and further diversification of South Africa's trade, and especially its exports, with the rest of the world. This is not to imply, however, that foreign trade, especially gold exports, became marginalised in its contribution to the economy in any way.

Furthermore, intensifying international pressure, escalating internal resistance to apartheid, and the stagnation of economic prospects contributed to a decline in direct foreign investment into South Africa. The decline in direct foreign investment after c1973, the instability in export earnings from gold, and for some periods, high and unstable domestic interest rates, were factors

which encouraged the state and private capital to turn to international bank credit in order to finance growth and development. While the state in the mid-1970s was still able to acquire medium to long-term loans, the mainly private sector foreign loans after 1979, were increasingly short-term finance. In the period between 1970 and 1982, this entire process was facilitated by the growth and diversification of and technical innovations in the international lending and bond markets and was very much in line with the state's own (nationally-determined) strategy of building up its strategic and infrastructural foundations at a time when the long post-war boom had come to an end and anti-apartheid pressures were gradually building up in the US, Western Europe and elsewhere.

The interaction between global and domestic crises and the transformation of a country's international economic relations can therefore be causally linked in these and other ways. The effects of global developments, such as those examined in Chapter 2, as well as domestic economic and political crises on the transformation of South Africa's international economic relations in the period 1970-1985, will be examined in this chapter. This analysis has necessarily to be preceded by a study of the major economic and political developments and changes within South Africa in this time.

(2) THE SOUTH AFRICAN ECONOMIC CRISIS

Developments in the world economy as well as in the structure of South Africa's international economic relations, especially since the mid-1970s, introduce complexities into any analysis of the nature and character of South Africa's links with the world economy which rest on the grand teleological models of 'dependency' or 'dependent development'. Changes in the international dimension have already been discussed in detail in Chapter 2. In short, these latter changes include the decline in US hegemony; the rise of new

industrial powers; the switch to flexible exchange rates; and the growth of an international financial market, in which private international banks, and the IMF (in a supervisory capacity) became central institutions. What impact did these developments have on the South African economy?

While some of these changes in the nature, structure and balance of power relations in the world economy provided space for creative national development, other changes starkly revealed the cost of technological and economic dependence for many developing countries. Thus for example more radical self-reliant strategies were thwarted by economic factors such as the sharp deterioration in the terms of trade of most primary exports and the effect of the oil price hikes of 1973 and 1979, and by political factors such as the perceived need by the superpowers in the mid-1970s for streamlining their allies and reasserting greater control over their spheres of influence.

Stephen Gelb has shown that two of these developments in the world economy in particular were to have a significant impact on South Africa's balance of payments, on the South African economy as a whole and contributed to this country's growing crisis.⁴ First, slowing productivity and the resultant increase in unit value of output which set in in the advanced industrialised countries from the late 1960s, had the effect of increasing the price level of South Africa's machinery imports. These increases which accelerated after 1973 were, according to Gelb, the 'primary initiating factor in the South African crisis, transmitting the effects of the developing international crisis to the domestic economy.' Secondly, the collapse of the fixed exchange rate regime, resulted in greater instability in the South African balance of payments and in its foreign exchange reserves, as the value of the country's exports (gold, minerals etc) began to fluctuate more than before. 'The balance of payments and the foreign exchange constraint thus no longer exercised a stabilising long run effect through their role

in cyclical fluctuations, and instead became a destabilising (and unpredictable) factor.⁵

But as Gelb points out, though these international developments and the growing crisis in the world economy suggest that the South African crisis was caused by 'unfavourable exogenous developments', the form of the crisis, the 'process of its development, its differential impact, depth, length' etc are a consequence of local patterns of accumulation and policy processes. South Africa's insertion into the international division of labour occurred on the basis of its gold, precious metal and raw material exports and capital goods imports. In the 1950s and 1960s rapid accumulation was founded on an industrial policy of import-substitution industrialisation (ISI), high profitability in mining and a relatively low and racially-skewed wage structure. The objective of ISI was to divert export surpluses into the production of consumer goods for the domestic market. This was achieved by the introduction of high tariffs on imported goods. The policy was supported by the purchasing power of a racially-privileged segment of the South African population, ie the whites. The relatively low wage structure and repressive controls over the predominantly black working class, ensured high levels of profitability, even though the local market was small and limited. The source of industrial processes related to manufacturing and engineering remained largely external to the country, however, and this factor accounts for the 'peripheral' in the characterisation of South Africa, Brazil, Mexico and other similar countries as being examples of experiments in 'peripheral Fordism'. The racially structured pattern of consumption and production, has, however, led Gelb to refer to the South African pattern of accumulation and its accompanying political and institutional framework in the post-war period as 'racial Fordism',⁶ whose defining characteristics were a mode of regulation based on racial privileging (apartheid) and a regime of accumulation based on import-substitution industrialisation.

Whenever this model or strategy of accumulation led to problems for the country's external economic relations, adjustments occurred in terms of the Bretton Woods arrangements. Thus for example, when increased investment expenditure and capital goods imports eventually bumped up against the foreign exchange constraint, they forced the introduction of tighter monetary policies. These policies had the effect of slowing down investment, consumption and imports and so restoring stability to the balance of payments. In this era of fixed exchange rates, domestic policy was restricted by concern over its effects on international cooperation and coordination and was honed to protect foreign exchange reserves and to support the exchange rate.

Coinciding with international developments, the regime of accumulation and mode of regulation set in place in South Africa in the post-war period upon which growth was generated, ie import substitution industrialisation and a social and political order based on racial privileging, began to run into serious difficulties from the early 1970s. In general, South Africa began to experience problems not dissimilar to those of other 'peripheral Fordist countries', such as Brazil.⁷ The limited size of the domestic market restricted the extension of mass consumption; the country failed to develop a sufficiently broad base of managerial and technical skills to maintain high levels of productivity; slowing productivity growth and growing crises in the main industrialised centres of Europe and the US, limited the expansion of manufactured exports so crucial to achieving more self-sustaining growth and finally and unique to South Africa, political factors constrained the expansion of exports into Africa. In addition, changes in the balance of class forces, especially after the Durban strikes in 1973, resulted in higher black real wages and changes in the pattern of consumer demand. This affected the nature of both consumer imports and of production which required capital goods imports.⁸

The growing recognition of the limited possibilities of further (consumption-based) import-substitution industrialisation which can be traced to the findings of the Reynders Commission report (1972) was being sharpened by the fact that slowing demand for South Africa's major primary exports in the advanced industrialised countries after c1974 curtailed the rate of growth of export revenue and placed definite limits on South African imports of capital goods and equipment, so vital to the growth of import replacement industries. Changes in imported technology had the effect of increasing capital intensity of production and capital goods prices. Coupled with increasing black wages these factors served to reduce the profitability of manufacturing in South Africa. Kahn has observed that 'increased real wages, declining productivity of capital and declining commodity prices resulted in a secular decline in South Africa's terms of trade' since the early 1970s.⁹ Variations in the gold price, which occurred after the shift to flexible exchange rates, resulted in extreme fluctuations in the terms of trade including gold, and a consistent decline in these terms of trade excluding gold. By 1986 the terms of trade, excluding gold, were approximately 43pc lower than their 1970 level.¹⁰

With this background, we can now proceed to a detailed examination of the main features, and trace the behaviour of the central variables, of the crisis in the South African economy which set in in the early 1970s in the wake of crises and change in the international economy and in the South African regime of accumulation and mode of regulation. The origin of the crisis in the South African economy is marked by the behaviour of two key variables in the cyclical downswing which began in 1974. These variables are unit labour costs and foreign exchange reserves. In the framework of regulation theory a cyclical downswing would be termed reproductive if unit labour costs fall and foreign exchange reserves rise, thereby creating the foundations for a cyclical upswing. However, in the South African downswings from 1974 to 1977 and again from 1981 to 1986 these variables moved in the opposite

direction, pointing to the non-reproductive nature of the downswing.

The first phase 1974-1977 was marked by the emergence of stagflation, ie. a combination of sustained price rises and high and rising unemployment. The real growth rate, which had averaged 6pc in the 1960s turned negative in the first half of 1976¹¹ and was zero in 1977. The volume of manufacturing output fell by about 6pc from mid-1974 to mid-1975, and after small increases for a few months, fell even further during 1976/77. Private sector investment in manufacturing began to drop from 1974, while total investment declined by about 13pc between 1975 and 1977. Black unemployment rose sharply to a new plateau in the 1970s. Black unemployment in every year between 1971 and 1981 was higher than for any year in the period 1960-1967, averaging 10/11pc in the 1960s and a much higher 15/16pc in the 1970s.¹² In addition the number of whites, coloureds and Indians unemployed, traditionally low because of the more protected nature of their end of the racially segmented labour market, increased by 250pc in the three years from January 1974. The recessionary conditions of this first phase did not, however, immediately produce a decline in nominal profitability, although there was a fall in underlying profitability conditions. Under pressure of rising nominal aggregate demand inflation accelerated and real interest rates turned negative.¹³

The mid-1970s witnessed a sharp deterioration in South Africa's balance of payments. South Africa's current account showed deficits of R998m, R1 813m and R1 671m in 1974, 1975 and 1976 respectively.¹⁴ This was largely the result of high import requirements, including defence-related imports, a rising import bill in the face of mounting inflation in South Africa's main trading partners and a fall in the world prices of some South African exports. The gold price fell in 1975/6 under the impact of IMF gold sales and behaved erratically in the next few years until the massive rise after 1979. The erratic price behaviour of gold added a further element of instability to South Africa's external economic relations. The

country lost 25pc of its foreign exchange reserves in the first quarter of 1976 alone and was forced to turn to the IMF for assistance, which it readily received. The government turned to policies to reduce demand, especially private sector imports, so pushing the economy further into recession.

The South African state did not however, in response to the crisis in the economy, intervene in reshaping productive activity in the way some of the newly industrialising countries (NICs) did by directly supporting and developing their manufacturing sector in order to become more internationally competitive. Rather the state, basing its plans on an anticipated gold price of over \$200 an ounce, embarked on a massive strategic and infrastructural investment programme involving the upgrading and extensions to harbour and rail networks, electricity, steel and energy supplies, all financed mainly by the credit and loans of the international banks and bondholders. With the state committed to such strategic investment and with severe balance of payments problems, the demand for international credit became more and more urgent. While the local South African capital market had developed greatly in the preceding decade, it did not have sufficient depth to finance balance of payments deficits and provide for the apartheid state's security and economic development as well. In the years 1974-76 international bank lending more than doubled, both in volume and as a percentage of total foreign investment.¹⁵ These issues will be examined further in Chapter 5.

By the time of the Soweto student uprising South Africa's balance of payments was already strained by the rising price of oil, the effects of recession and inflation in the advanced industrialised countries, inelastic import requirements, including defence-related imports, falling commodity prices and an erratic gold price. However these problems especially on the capital account were exacerbated by the events on and immediately after 16 June 1976. At least six months earlier, South African troops had crossed deep into Angola, as part of a general western effort to stop the

MPLA from taking and holding onto power there after independence. But the adventure ended in a debacle ¹⁶ (supposedly, it was argued later) because of the failure of the US to support South Africa militarily. The incident served only to isolate South Africa internationally as foreign investors began to reassess their South African risk and exposure. The student uprising on 16 June added to these problems.

Though the origins of these 'student' problems were immediately traceable to students' rejection of Afrikaans as a medium of instruction in schools, the sustained and widespread resistance suggested a new spirit of optimism and confidence among the forces opposing the apartheid state. To these problems for the state, were added the continuing worker strikes which began in Durban in 1973. The strike momentum had continued unabated for the three years after 1973, the average yearly number of African workers on strike never declining below 30 000 compared to the 1960s when the number in any one year never exceeded 10 000. ¹⁷ The possibility of such prolonged political tensions in South Africa soon made their impact among international financiers. Although the regime continued to receive the financial support from the IMF throughout 1976, the failure of a few South African bond issues in Europe at the time, increased interest rates on the country's foreign bank loans and a shortening of the maturity structure of such loans, were all early pointers to the problems South Africans only perceived much later and in rather dramatic terms.

The economic recession and balance of payments deficits coupled with the growth of worker militancy and organisation, the Soweto student revolt of 1976 and the general escalation in resistance by unions and progressive political organisations, forced the state to embark on a limited programme of the reform of apartheid, especially in the fields of labour and urban policy from about 1977. These reforms represented an attempt to change the institutional framework of labour relations, ie. an attempt to adjust the mode of regulation to rapidly changing circumstances.

These reforms were initiated with the appointment of the Wiehahn and Riekert Commissions of enquiry in 1977. The appointment of the de Kock Commission of enquiry into monetary and exchange rate policy and the Kleu Commission into industrialisation policy at about the same time, was also part of the state's response to the growing crises and changes it faced in the mid-1970s. The work of these Commissions resulted in the gradual adoption of new policies, such as the liberalisation of financial markets and of exchange controls and a gradual though less distinct shift towards export promotion. Policies in regard to exchange rates, for example tended to favour mining as the principal export sector. Fitfully at first, but then gathering momentum in the late 1970s, a new though contradictory process of attempting to establish a new regime of accumulation and mode of regulation was being tested out within the South African social formation.

A second distinct phase in the post-1973 crisis began at the end of 1981. By mid-1979, the phenomenal rise in the gold price, which in 1980 peaked at over \$800 an ounce, allowed for some recovery of economic prospects. But the recovery was slow, shortlived and narrowly based. It was mainly consumer-led and made little impression on industrial prospects or investment. For from the early 1980s it became apparent that the rising costs of imports caused by a falling rand, and of working capital as interest rates rose, and the preference given to the mining sector in policy formulation, were beginning to eliminate the 'safety net' underneath industrial profitability.¹⁸ Bankruptcies increased and the (short-term) foreign debt of the private sector began to mount. In the months from August to October 1985, an average of fourteen South African-based companies were placed in liquidation each day. Between 1981 and 1986, one in six factories shut down completely, representing a drastic diminution in capital stock. The combination of recession, poor profitability and declining prospects in the medium to long-term, resulted in a massive drop in private sector investment in new productive capacity after 1980. Manufacturing output recorded real declines of between 11pc and 12pc between 1980

and 1985, and employment in manufacturing fell from 1 449 000 in 1981 to 1 326 900 in 1985.¹⁹ Non-African registered unemployment, which as we have noted, had been historically low, with a previous post-war peak of 30 927 in 1978 rose to a seasonally adjusted figure of 62 105 in 1985, ie more than double the previous post-war peak.²⁰

Inflation ran at double-digit levels exceeding 13pc in 1984 and 17pc in 1985.²¹ The rand was under almost uninterrupted pressure from the beginning of 1982. Money supply had been expanding at annualised rates of between 25pc and 50pc between 1981 and 1984.²² Government borrowing and the budget deficit increased and there appeared little scope for reductions here, because of the apartheid state's priority expenditure on security-related expenditure and its own heavy 'reform-oriented' expenditure such as that on the tri-cameral parliament. Critically, the gold price which had peaked at over \$800 an ounce in 1980, and had lulled policy makers into a false sense of South Africa's prosperity, fell sharply from this level and began to behave erratically after 1981. The gold price averaged \$376oz in 1982, rose to \$424 in 1983, and fell again to \$361 in 1984 and to \$317 an ounce in 1985.²³ These fluctuations were primarily a consequence of the adoption of 'monetarist' policies in the US, which forced both interest rates and the dollar up, until the dollar began to fall again from 1985.²⁴ The current account of the balance of payments was in deficit between 1981 and 1984. The change to surplus in 1985, was due largely to the dramatic fall in the value of the rand, and the restrictive monetary and fiscal policy adopted in August 1984. (Details of the changes which were occurring in the structure of the balance of payments, and especially in the capital account will follow in the next section) Although personal savings dropped in the early 1980s, the slowdown in new industrial investment, was reflected in a concomittant increase in corporate savings.²⁵

While similar processes of recession and crisis occurred elsewhere, what distinguished the South African crisis was the uneven impact

on manufacturing as compared to mining. In rand terms (gold) mining boomed, especially after mid-1983, although the rise in inflation in the wake of the falling rand made mining relatively costly in international terms.

The economic crisis, and especially rising inflation and falling employment soon began to have an impact on the lives of working people. In the following paragraphs only the briefest outlines of the political problems South Africa faced in the years 1984-1986 are surveyed. These political tensions were a significant factor in shaping the responses of private international banks to their South African loans. By Spring 1984, both strikes in support of demands for higher wages and township protests against rising rentals had become widespread. Since the formation in August 1983 of the United Democratic Front, resistance to the first elections to the separate Indian and Coloured chambers of the South African parliament had mounted. This resistance to declining economic and social standards and to racially discriminatory political institutions combined and interacted in the years 1984-1986 to produce the most serious challenge to the South African socio-political order since the student uprising of the mid-1970s.

Nineteen-eighty four saw a sharp increase in strike activity, the number of working days lost being more than treble the 1983 figures.²⁶ Labour conflict escalated in September 1984, with the entry onto the scene of the black mineworkers organised in the National Union of Mineworkers (NUM). Their wage dispute with the Chamber of Mines is likely to have been closely watched by overseas financiers and investors given the latter's interest in this critical sector of the South African economy. Workers, students and youth organisations went on three political stayaways between September and November 1984. By October the state announced that it would be using the defence force to quell the township 'unrest', so arguably carrying the conflict into a state of civil war. Seven thousand troops and policemen occupied the Vaal Triangle township of Sebokeng and then the neighbouring townships of Sharpeville and

Boipatong in the third week of October 1984, setting a pattern of township occupation and violent conflict throughout South Africa which was to characterise the next few years. In one of the most intense moments of this continuing political upheaval (some have called it an insurrection) over seventy people were killed in the eastern Cape in the aftermath of the stayway organised for the weekend of 16-18 March 1985, 'Black weekend'. In one incident on 21 March twenty black people were killed at Langa township outside Uitenhage, the shooting occurring ironically on the twenty-fifth anniversary of the 1960 Sharpeville massacre.

Political resistance in the townships also became more organised than in any previous period of resistance to the apartheid state, as protestors formed alternative structures such as street and area committees within each township. These committees co-ordinated resistance and served as rudimentary organs of 'peoples power.' In July 1985, the South African state found it necessary to impose a partial state of emergency to deal with the situation. Botha's Rubicon speech of 15 August 1985 failed to satisfy bankers and foreign investors that the state had matters under control. Earlier in July 1985, Chase Manhattan Bank had called in its South African loans so precipitating a crisis in this country's international financial relations.²⁷ Finally, on 12 June 1986, the state declared a full state of emergency, using those powers to restore some semblance of political stability onto the South African landscape.

Changes in the international economy, such as those examined in Chapter 2, and the onset of economic crisis and political instability after 1973 which have just been described, combined to produce significant changes in the structure of South Africa's international economic relations in the 1970s and 1980s. These changes will be examined next and summarised in the conclusion. The following analysis additionally attempts to point to the inherent and acquired strengths of the South African economy, which in a sense partially protected it from some of the consequences of its participation and integration into the changing and volatile

world economy of the post-Bretton Woods era. The country's success in adjusting to changes in aspects of the international mode of regulation and its own internal crisis are assessed, alongside its failures and crises.

Thus for example, the state's large-scale intervention in infrastructural and strategic national development in the mid-1970s, using the finance obtained so easily from private international banks and international bond placements; the attempted diversification of its exports and export markets; its response, albeit limited at first, to its technological dependency; the increasing internationalisation of South African capital; the ease and success with which national capital stepped into the shoes of disinvesting foreign multinational corporations; the limited short-term political effects of trade sanctions and the debt crisis when many were predicting that sanctions would bring about the swift ending of apartheid, all point to the importance of recognising and understanding local strengths, strategies and policies in evaluating changes in the nature and structure of South Africa's international economic relations in the 1970s and 1980s.

This recognition of the importance of national strengths and economic strategy follows from one implication of our earlier critique of most versions of dependency theory, ie the denial of the possibility that developing countries, who are locked within the circuits of the world economy, can pursue a relatively 'autonomous' national economic strategy. This case is based on an acceptance of Corbridge's argument that although 'the world system is greater than the sums of its component parts (of course) and this sets limits to localised political [and economic] action, these component parts, and some nation state's especially can still mould and change the system itself', at least in part.²⁸

(3) THE CHANGING PATTERN OF SOUTH AFRICA'S INTERNATIONAL TRADE:
1970-1985

Descriptions and analyses of South Africa's international economic relations invariably begin by emphasising, that in contrast to most of the developed, industrialised countries, this country has a very open economy. ie where exports and imports make up a very large slice of the country's Gross Domestic Product (GDP). Thus for example on average in the years 1961-65 exports and imports of goods and non-factor payments in real terms (constant prices) together accounted for 59pc of the country's GDP. On average in the years 1971-75 this comparable combined figure still stood at a high 58,4pc. (cf the approximately 10pc combined total for the US) In the 1970s and 1980s, however, this figure began to fall, first to 52,2pc on average between 1976-80, and to 48,3pc on average between 1981-2.²⁹ Real exports in particular have become less important in relation to GDP since the early 1960s. Real imports increased in importance from the early 1960s to the middle 1970s, but have declined thereafter. Furthermore the aggregate of South Africa's imports and exports as a percentage of world trade has declined from 2,9pc in 1965 to 1,1pc in 1985.³⁰ This data does suggest that though still high by the standards of the least open and vulnerable industrialised countries, such as the US, the relative importance of South Africa's foreign sector, measured in trade terms, has declined.

(3.1) Exports

South Africa's merchandise exports, excluding gold, grew rapidly in the period 1970-1985, increasing nearly seven fold in the 1970s and more than doubling again in the 1980s to the year 1985.³¹ Disaggregating in terms of major export categories, end-use and stage of production, reveals that there have been few major structural changes in South Africa's total exports, in the period 1970-1985. (Table 5) One outstanding feature has been the share of gold in total export earnings. High throughout most of this period, ie over 40pc of total export earnings, gold earnings, aided by an exceptional price boost in 1980, rose in that year to exceed the

combined earnings of all other exports. (R10 141 compared to R9 766) ³² This contrasts with the brief period in the years 1974-76 when in an international environment of volatile movements in its price, export earning from gold fell to a low of nearly 30pc.

| | AVERAGE 1969-1973 % | AVERAGE 1976-1979 % |
|---------------------------|---------------------------|---------------------------|
| Primary Goods | 39,8 | 42,8 |
| Intermediate Goods | 42,7 | 43,4 |
| Capital Goods | 7,9 | 5,3 |
| Consumer Goods | 9,6 | 8,5 |
| Total Merchandise Exports | 100,0 | 100,0 |

SOURCE: Nedbank Survey, 1983, p119

Given the dominance of gold exports, its price performance can seriously affect the current account, the balance of payments as a whole and the economy itself. Numerous global developments contributed to erratic movements in the price of gold in the period of this study. These include the volatility in the value of the dollar in the period after c1971, the vacuum left between 1971 and 1976 by the effective ending of the fixed exchange rate regime and uncertain prospects for the US economy as a whole. Thus, for example, in 1980 the gold price averaged \$613 an ounce, which was exactly double the average price of 1979, and more than three times the average of 1978. By February 1985, however, the gold price had fallen to around \$285 an ounce.³³

Export earnings derived from non-precious minerals, notably coal, chrome, iron ore, copper, uranium, tin, antimony and asbestos, also increased throughout the 1960s and 1970s, fell in the early 1980s, stabilised and then revived after 1984.³⁴ The growth in coal exports

in the 1970s is most remarkable. South Africa's share of the world steam coal market increased dramatically from less than 4pc in 1970 to a peak of 40pc in 1979, mainly as Leger has argued, because of its price competitiveness, reliability of supply and quality.³⁵ This share dropped to 30pc by the mid-1980s as a result of increasing competition from rival producers such as Australia, and after 1986 because of sanctions. Mineral products exports as a percentage of total merchandise export earnings increased from an average of 13,1pc in the years 1975-79 to 20,4pc in 1982, so exceeding the share of precious stones and metal coins (including Krugerrands) and becoming the largest single export category.³⁶ Freund has argued that industrial mining in South Africa is far less labour-intensive than gold mining, and 'it is not clear to what extent low wages of South African miners influence the competitiveness of export prices.'³⁷ No doubt the rising international prices of such non-precious metal exports in the 1960s and early 1970s were closely related to the increased demand from the US for military and strategic purposes in the conduct of the Vietnam War.

In absolute terms, South Africa's exports of manufactured goods expanded rapidly in the late 1960s and 1970s.³⁸ World Bank figures show a noticeable increase in the share of 'other manufactures' in total merchandise exports between 1965 and 1982. World Bank data shows a marked increase in South African exports to 'developing economies' in the same period.³⁹ Most of this was to Africa, and though disaggregated figures of South African exports to African countries are not made available (for political reasons presumably) it is not unreasonable to assume that the major share of this was to South Africa's captive market in southern Africa, and especially to pre-independence 'Rhodesia'. Zimbabwean independence in 1980, economic stagnation in many African countries and the South African mini-boom in 1983/4 which may have diverted production to the home market, are some of the reasons underlying the failure of manufactured exports to develop any further momentum.

An analysis of the relative contributions of the main industrial sectors to exports, shows that despite its absolute growth, the share of manufacturing exports has not increased since 1968, and in fact had fallen up to 1985. The share of manufactured exports fell from 37,2pc in 1972, to 28,4pc in 1980, rising slightly to 33,1pc in 1985.⁴⁰ The share of agriculture has declined from 15pc to just over 3pc in this time. Only mining's share of total exports has increased in this time to an average of over 60pc in the 1980s. Kahn has argued that this data suggests that South Africa's insertion into the international division has not fundamentally changed from its origins as a raw material supplier.⁴¹

An important factor which limited the growth of South African manufactured exports was the failure of the state, given the heavy and competing demands on the fiscus, to intervene in supporting manufacturing development on the production side. Morris and Padayachee have argued for example, that 'although the state laid the foundations for local capital accumulation...it did not intervene radically within both capitalist enterprises and sectors with the aim of restructuring the very process of capitalist production itself...[the state] did not act in a coercive manner, as in the case of the South East Asian NICs, to ensure a radical restructuring of manufacturing capital in order to ensure its international competitiveness.'⁴² Whatever support of this nature the state did provide was limited and occurred via the parastatals, and not more generally to the manufacturing sector as a whole, as had been recommended in 1972 by the Reynders Commission. The reason the state chose to ignore these recommendations at that time remains unclear.⁴³

Furthermore South Africa's cost structure has risen more rapidly than that of its major trading partners, so limiting its international competitiveness in manufactured goods. Its limited domestic market in these products has meant that the country has not reaped significant economies of scale and the fact that South Africa's business cycles are out of step with its main trading

partners has sometimes resulted in a switch to meet domestic demand for manufactured goods. All these factors, plus the prolonged recession in the main industrialised countries, have contributed to limiting the development of South Africa's manufactured goods-export sector.

Fransman has shown that some Asian and Latin American countries have successfully produced and exported certain manufactured goods, including capital goods, (machinery and equipment) mainly to other developing countries.⁴⁴ Despite the above 'gloomy' picture, South Africa's performance with regard to manufactured exports has not been entirely unsatisfactory when gauged by such international comparisons. Thus for instance South Africa features well in the list of the top twenty-seven developing countries whose exports exceeded \$1 billion in 1980. Half the manufactured exports of these twenty-seven countries came from the top four; Taiwan, Hong Kong, South Korea and South Africa.⁴⁵ In South Africa's case these exports were mainly in the category 'other manufactures', which is a very mixed bag of manufactured goods. This makes it difficult to assess the extent to which these figures are indicative of the growing diversification and flexibility of South African manufacturing industry.

What is clear from the data, however, is the limited South African penetration of the international capital goods export market. South Africa's exports of capital goods declined from 7,9pc of total merchandise exports on average in the years 1969-1973 to 5,3pc on average in the years 1976-1979.⁴⁶ (Significantly, in the same two periods, imports of capital goods, increased from 44,2 pc of total merchandise imports to 51,7pc) Machinery and mechanical equipment exports have remained static during the 1980s, averaging 1,3pc of total exports over this period. However one expanding area of manufactured exports, which may account for a large part of the 'other manufactures' category is armaments. Kahn quotes Jane's Defence Weekly as reporting that 'Arm Scor is now the largest single exporter of manufactured goods in South Africa, with sales to

twenty-three countries valued in 1987 at R1,8b.' The accuracy of the report was confirmed by an Armscor spokesperson, who added that 'Armscor had changed from an importer to an exporter in the last decade'.⁴⁷

It is nevertheless true that, despite some attempt at export diversification, South Africa still remains reliant on primary and intermediate goods exports for its crucial foreign exchange earnings, as is apparent from Table 5.⁴⁸ In short it would appear that Kahn's contention about the status of South Africa's place in the international division of labour as a raw material or primary goods exporter remains largely correct. However, unlike other primary goods exporters, South African primary exports are relatively more diversified, both in terms of products exported and countries of destination, and in addition its principal primary export, gold, despite the volatility in its price in the period after 1970, remains a rather special and unique commodity, a point made earlier in this thesis.⁴⁹

A few points have also to be noted about the structure of South Africa's exports by destination. The first is the rather dramatic decline in exports to the United Kingdom. In 1970 the UK accounted for 29pc of South Africa's export earnings. By 1980 this figure had more than halved. Apart from the UK's own economic decline and her declining share of world trade in the 1970s, the major reason for this was the 1975 British ban on the importation of gold coins, including Krugerrands. South African Krugerrand exports thereafter were shifted mainly to Switzerland. In the 1970s the US replaced the UK as South Africa's leading export market, 14,7 pc in 1980 compared to 8,4pc in 1970.⁵⁰ The decade of the 1970s witnessed a further concentration in South African exports by destination, its six major export markets increasing their share from 59pc to 62pc between 1970 and 1981.

However, World Bank figures show that the 1980s appear to represent a shift away from this trend of increasing concentration.⁵¹ Fears

of sanctions in the 1980s may have increased the urgency for diversification. The Far East and Japan in particular, have increased their relative share of purchases from South Africa at the expense of Western Europe and North America. In 1982 and 1983, Japan surpassed the US and UK to become South Africa's principal export market.⁵² Taiwan has also become more important in this respect, surpassing Canada in 1982.⁵³ In general South African trade with the Asian economies has risen sharply in the 1980s, exports to Asia including Japan, rising from 19pc of total exports in 1980 to 31pc in 1987.⁵⁴ Kaplan has argued that the growth of markets in the Far East is significant 'not simply because of the further diversification of export markets, but also because the Far East is likely to be the area of the globe with the most rapid sustained growth in the medium-term.'⁵⁵ Exports to Africa, as we have already noted, began to decline in the 1980s, coinciding with Zimbabwean independence and continued political tensions. South African manufactured exports are the most likely to have been affected by this shift. Nevertheless, by 1984 South Africa was still an important source of imports for Malawi, Mocambique, Zambia and even Zimbabwe.⁵⁶

(3.2) Imports

South African merchandise imports increased five fold in the 1970s, from R2 547m to R14 414 in 1980, but slowed noticeably in the early 1980s, especially in 1982/3.⁵⁷ Looking at imports by category, two changes of significance need to be noted. First, imports of manufactured consumer goods has declined, indicating increased local production of such goods.⁵⁸ Second, imports of capital goods, especially of machinery and transport equipment, has become progressively more important. Capital goods imports increased from an average of 44,2pc of total imports in the years 1969-1973 to 51,7pc on average in the years 1976-1979. These trends accelerated in the early 1980s. Kahn has calculated South Africa's import-penetration ratios (IPRs, the ratio of total imports to domestic consumption) and his figures show that import penetration of

machinery has been high, showing no tendency to decline since the mid-1960s. Over half of South Africa's domestic expenditure on machinery is devoted to imported machinery. The category 'Motor vehicles and transport equipment' also has high IPRs. Though these IPRs have shown a downward trend since 1965, they have not fallen significantly given the high degree of protection of these sectors.⁵⁹

South Africa's imports have become more concentrated by country of origin, its six largest suppliers increasing their share of total imports from 70,3pc in 1970 to 76,9pc in 1980.⁶⁰ The US replaced the UK as South Africa's major supplier in the 1970s its share rising from 16,8pc in 1970 to 19,2pc in 1980. The UK's sales to South Africa fell from 22,3pc to 17,1 in this time. South Africa has also increased its purchases from the Far East, matching the trends in its exports; the Japanese import trade rising from 8,8pc in 1970 to 12,7 pc in 1980. Japan in 1981 became South Africa's main supplier of 'vehicles, aircraft and transport equipment', 'base metals', 'textiles and textile articles', and 'optical, photographic and medical equipment'.

This reliance on capital goods imports, which is a crucial factor in a country's development capacity, and the narrowness of its sources of supply, is a central feature of countries in the 'dependent periphery'. Such factors which constrain a country's ability to pursue an 'internally-generated' development, form essential elements in the dependency approach to characterising development in the periphery and semi-periphery. South Africa's import structure, its heavy reliance on such capital goods and the technology embodied in them, and its concentrated supply sources, provide dependency approaches to a study of South Africa's interaction within the world economy with their strongest empirical weapons. But some qualification of this position is essential.

The results of South Africa's import-substitution programme, which was accelerated after the second World War, have been mixed. In

terms of this programme, the country has achieved some considerable success in the production of (previously imported) manufactured consumer goods. State support for the local automobile industry, via tariff protection and legislative incentives, has produced a higher local content in the motor and motor assembly sector. For entirely different reasons, ie the arms boycott, South Africa has developed virtual self-sufficiency in the production of armaments to the extent that it now exhibits in international arms fairs and exports military ware to some countries, as we have noted above. South Africa has had less success in the development of a capital goods sector which would allow it to reduce its 'dependency', and develop a more 'auto-centred' expansion. However, this failure can be ascribed less to some 'imperialist desire' to block the entry of new capital goods producers than to the inability of some potential new producers such as South Africa to insert themselves into the 'virtuous circle of intensive accumulation', ie the age of production for mass markets which marks the post-second World War capitalist world economy.⁶¹

Thus for example, Kaplan in his study of the local capital goods sector rejects the widely accepted view that the slow development of South Africa's capital goods industry, and especially of machine tools, arises (in part) out of the predominance of foreign firms in this country, a technological dependence (overseas licensing) and the lack of local research and development.⁶² Rather, in attempting to explain this failure, he finds support in factors such as (1) South Africa's inability to develop a regional export market in capital goods; (2) the limited role of state aid to the capital goods sector; (3) the ineffectiveness of tariff protection in the face of the more innovative strategies of the Asian NICs; and (4) the effect of the economic recession and business cycle fluctuations in reducing effective international prices (via discounts).

Although the development of the local machine tools industry compared quite favourably with that of South Korea and Taiwan

throughout the 1970s, by 1982 the industry began to stagnate for reasons which include those itemised above. South Africa has had greater success in another branch of the capital goods sector, ie in its telecommunications equipment industry, but despite higher state support here than for machine tools, such state involvement still cannot be compared to the more 'pervasive and direct' state assistance in the NICs.⁶³

This type of analysis which derives from the concerns of regulation theorists such as Lipietz, while not denying South Africa's longstanding and heavy reliance on capital goods imports, nevertheless reflects a far more balanced approach to explaining the limited growth of South Africa's capital goods sector than those flowing from crude versions of dependency and underdevelopment. The latter approach tends to emphasize the centre's need to keep the outside world in a perpetual 'state of industrial non-development in order to flood it with its products', while regulation theory goes beyond this to seek explanations within national economies for a country's failure to insert itself fully and successfully into the international division of labour.⁶⁴

(4) TECHNOLOGICAL DEPENDENCE IN THE POST-1970 SOUTH AFRICAN ECONOMY

It is when we look at technology, that the importance of South African integration in the imperialist system becomes clear.

This view expressed here by Bloch⁶⁵ in relation to South Africa's technological relations with the world economy, was not untypical of an earlier emphasis in the post-1970s literature, derived from dependency theory, on the negative consequences for Third World development of a technological dependence on the advanced industrialised countries. Implicit was the argument that the technological capability of the Third World was extremely weak. It was only in the late 1970s that this assumption was challenged as the focus of attention shifted to an examination of the indigenous

technological processes of specific nation states.⁶⁶ The pace of technological advance since the second World War, and the growing ease of technology transfer has dramatically shortened the average period of dominance and the resulting international competitive edge of technological leaders. These possibilities have been crucial to the success of some developing countries, such as the NICs. Thus for example, in the nineteenth century it took India some forty years to manufacture textiles of a quality and cost comparable to the Lancashire mills. In the second half of the twentieth century, it has taken only a few years for Japan, Korea, Taiwan and Hong Kong to produce high technology products better and more cheaply than the US.⁶⁷ In short, it would appear that developing countries are no longer inevitably or simply doomed to a cycle of low growth as a result of technological dependency.

The following brief discussion of technological aspects and implications of South Africa's international economic relations is not intended to dispute the fact that economic growth in certain crucial sectors of the South African economy is, and has been for decades, closely dependent upon the availability of a technology imported directly from the advanced industrial countries and applied in relatively unadapted form. Kaplan for example,⁶⁸ has shown that the indigenous technological capability in the South African machine tools industry is very limited. And in general, technology in the manufacturing and engineering sector has been almost all directly imported, mainly through multinational corporations. Until the late 1970s even state bodies such as the Council for Scientific and Industrial Research (CSIR) and the South African Inventions Development Corporation (SAIDCOR) focussed their attention on obtaining foreign technology rather than on developing a domestic capability.⁶⁹ This dependence has not gone uncriticised in some quarters. Barlow-Rand Finance Executive, Evert Groeneweg, has argued that,

South Africa is the best colony that Britain ever had and we still are. We import manufactured goods and technology. We do not create technology. That is typical of boards [of directors]

throughout this country. Nobody says, though this is slowly starting to change, that we've developed technology ourselves, that we've tried it, got the CSIR involved, and tested the market. This is because of the colonial mentality that sits squarely in our culture.⁷⁰

While accepting the dominance of these technological links with the industrialised countries of Europe and North America, one should also attempt to remove the blinkers of dependency theory and acknowledge local technological capabilities and advances in South Africa. Kaplinsky groups South Africa with India, China, Brazil, South Korea, Taiwan and Argentina as among the countries who have made advances in their technology in recent times.⁷¹ South Africa has been among the world leaders in technological advances in mining and mining equipment. Freund quotes the South African Mining journal which reported that by 1986 South African mines were pioneering the 'most advanced use of computers in deep-level mining anywhere in the world.'⁷² Leger attributes the 'spectacular' growth in the scale and profitability of coal mining in the 1970s to, among other factors, the 'technological breakthroughs in the beneficiation of local coals.'⁷³

The international arms boycott of South Africa has also spawned the (terrifying) growth of a military-technological self-reliance which has undoubtedly (no figures are available for strategic reasons) had 'positive' spin-offs for participating and complementary industries in metals and other branches of secondary industry. The uranium enrichment plant (NUCOR) and the oil-from-coal project (SASOL) are further examples of the development of local technological capacity, the former being a 'natural' consequence of the country's resource endowment, the latter arising out of the post-1973 oil price increase and strategic considerations.

The apartheid state has also stepped up research into the development of a local technological capability, and especially as the middle 1980s approached, bringing with it increasing threats and then the reality of sanctions and disinvestment, the urgency

of diverting resources to research, development and co-ordination became apparent. In 1979, a parastatal agency, the Council For Scientific and Industrial Research (CSIR) was given the responsibility for developing a national programme for the promotion of technological development in the industrial and mining sectors. Direct financial assistance was channelled through the CSIR to firms in the private sector as the 'best way of encouraging technological innovation.'⁷⁴ The Kleu Commission of Inquiry into industrial strategy devoted considerable attention to technological issues.⁷⁵ Thompson points out that in the last ten years or so expenditure on research and development in the mining industry has increased dramatically, by 460pc between 1973/4 and 1980/1. Research and development by both the private and public sector has increased.⁷⁶ Despite the fiscal constraints of the 1980s, state funding of the CSIR, remained, at worst, constant in real terms from year to year. The recent moves (c1987) towards privatising some of the work and mode of operation of the CSIR (and other state/national research bodies) suggests that the deepening economic crisis is making this state support more difficult to sustain.

The rapid increase in direct foreign investment in the 1960s and early 1970s undoubtedly had the effect of facilitating the introduction of new technologies into South Africa, tying the country's development even more closely to international developments in this field. However, the gradual decline in the relative importance of such investment via multinational corporations, the growth of (more flexible) foreign loan finance, the increasing involvement of the state and parastatals in the economy in the 1970s, and the pragmatic considerations arising out of increasing international economic pressure (sanctions and disinvestment) have all led to greater attention being paid to developing South Africa's own technological capability.

Even if, as Thompson suggests, South Africa has now chosen to focus its technological attention 'primarily on adapting relatively

sophisticated methods to local environmental conditions and developing highly sophisticated products and processes for strategic and military reasons',⁷⁷ the likelihood is that there will, in the years ahead, be a further acceleration of developments in local technology capacity. The country is likely nevertheless to remain dependent upon foreign technology in many crucial sectors of its economy even though it may be forced by political considerations to obtain these through increasingly novel and secretive means. Information about technological aspects of South Africa's international economic relations have gradually been forced 'underground' in the post-Soweto era, and this tendency may accelerate in the near future, in the absence of a resolution of its growing pariah political status.

(5) THE CHANGING STRUCTURE OF CAPITAL FLOWS TO AND FROM SOUTH AFRICA AFTER 1970

Disaggregated and comparable data on South Africa foreign liabilities are most readily available for the period up to 1981, and the analysis which follows is occasionally constrained by this and the increasing secrecy about the source and destination of capital flows to the apartheid state in more recent years.

The most striking features on the capital account of South Africa's international economic relations in the period since 1970 have been the marginally reduced reliance on foreign capital compared to the 1950s and 1960s; the decline in importance of direct foreign investment, ie where the foreign investor, usually a multinational corporation, controls the investment; the increase in non-direct international bank credit, which in the mid-1970s were mainly medium and long-term loans to the state and parastatals, and in the late 1970s and early 1980s were predominantly short-term private sector borrowings; the growing importance of investment from the US at the expense of the UK and the rest of Europe; the gradual increase in local shareholding in multinational corporations, a

process accelerating in the 1980s in the wake of disinvestment; and the internationalisation of South African capital ie the increase in South African assets abroad. Developments on the capital account of South Africa's balance of payments reached a climax in mid-1985, with the dramatic announcement by Chase Manhattan Bank that it was calling in its South African loans.

As a developing country with increasing capital intensity, South Africa's reliance on foreign capital for meeting its investment requirements is not unusual. Van der Merwe and Bester have calculated that South Africa together with Finland, Greece and New Zealand, among the countries 'at a similar stage of development',⁷⁸ had the highest dependence on foreign capital in the period between 1956 and 1981, measured in terms of the ratio of its current account deficit to GDP. However, South Africa's total foreign liabilities (direct and non-direct foreign investment) as a percentage of GDP declined from a high of 58,3pc on average between 1956 and 1964 to 53,1pc on average in the next eight years. Though it rose fractionally to an average of 54,1pc between 1973 and 1981, this was still lower than the average post-war level.

In a reversal of the pre-war position, there was a decline in the importance of portfolio (share) investment and a rise in direct foreign investment in the 1960s. However, there was a decline in the relative share of direct foreign liabilities and an increase in non-direct liabilities, especially by the public corporations and local authorities between 1975 and 1981. From a high of 61,1pc of total foreign liabilities in 1969, direct foreign investment dropped to a low of 41,4pc in 1976, and rose marginally to 45,9pc in 1981.⁷⁹ The increase in non-direct investment by the public sector since 1973 was mainly in the form of medium and long-term loans from private international banks as well as international bond placements. The most significant developments in these categories were those in the mid-1970s. Between the end of 1973 and the end of 1976, public corporation's 'long-term indebtedness to the rest of the world increased more than threefold, nearly three

and a half times the rate of increase in that of the private sector.⁸⁰ By the late 1970s, however, the private sector's non-direct borrowings, mainly short-term and trade-related loans, also increased dramatically.

This rapid increase in state and private sector foreign loans and bonds caused a sharp increase in interest repayments. This growth has far exceeded the rate of growth of direct investment remittances and dividends payments and has placed added burdens on the trade account of the balance of payments. Invariably more short-term capital has been required to finance foreign debt servicing.⁸¹

The shortening in the maturity structure of South Africa's loans was not confined to those of the private sector. Rising international interest rates, fears of a world-wide debt crisis and growing domestic political uncertainty caused a marked shortening in the maturity structure of loans to both the private and public sector. The average maturity of government foreign debt, for example, narrowed steadily from 80 months in 1973 to 34 months in 1982.⁸² This shortening of the terms of foreign loans facilitated a rapid withdrawal of capital by foreign investors in the event of political or economic collapse, as the 1985 decision of Chase Manhattan and other foreign banks was to show.

The increase in the ratio of non-direct loan capital to total foreign liabilities (from 23,4pc in 1956 to 26,7pc in 1971 and to 46,3pc in 1976) may be contrasted to the sharp decline in long-term share capital (portfolio investment). The relative importance of share capital declined from 25,1pc of long-term foreign liabilities at the end of 1956 to 15,2pc in 1971 and 8,1pc in 1981. The reasons for the decline, relative to loan capital, include changes in South Africa's exchange control regulations which facilitated the withdrawal of the proceeds of share sales, the increasing foreign loan requirements of the public corporations, and political uncertainty and instability, especially after 1976

which increased the risk of such equity investment in South African mining and industry. Thus for example, following the liberalisation of exchange control regulations over non-residents in February 1983, a massive R1 158m of long-term share capital left the country as foreigners dumped their shares on the Johannesburg Stock Exchange (JSE) in order to reduce political risk and to take advantage of more favourable conditions in international lending and bond markets. This offloading of shares by non-residents increased the tendency, discernible earlier, towards greater local shareholding.

Already by the early 1980s, Kaplan had noticed that foreign companies were selling substantial portions of their equity to local firms, especially to South Africa's own giant conglomerates. Foreign companies selling their shares included ITT, Brindon, Read International, British Steel, Firestone, Dunlop, Chrysler and Leyland. Kaplan attributes this trend to the recession in the advanced capitalist countries, rising interest rates there and a liquidity and cash shortage. South African companies buoyed for a time by prospects of increasing profitability in some sectors of the economy (and narrowing avenues for productive investment) and with the active encouragement of the state, were 'willing purchasers.'⁸³ By the middle 1980s, as foreign companies began to withdraw their South African investments, it was clear that this increasing local shareholding was being translated into greater local control and an even greater concentration of economic power in the South African economy. These developments are in direct contradiction to the tendencies predicted by dependency theory for peripheral and semi-peripheral countries. Thus for example the disinvestment of Premier Milling in 1987 resulted in a change in ownership and the restructuring of the food industry. The restructuring has enabled the new Premier Milling/SAB group to have virtual monopolistic control over several sectors in which they operate. The Premier/SAB group is in turn controlled by Anglo-American Corporation, South Africa's leading multinational corporation. The Coca-Cola and Barclays disinvestment has resulted

indirectly in further gains for Anglo.⁸⁴ John Wilson, the Chairman of the British/Dutch multinational corporation Shell, has argued that 'disinvestment has been welcomed by many [South African] businessmen and the government as it has increased domestic control over business...It can truly be said that disinvestment has been development aid to South African capitalism.'⁸⁵ These tendencies towards greater local shareholding and control, coupled with its status as a 'partner' with foreign capital, a point we shall return to shortly, are clearly an important indicator of the growing strength of South African capital. The result of these processes has been a relatively less externally-oriented (or compradorised) structure of development than that characteristic of many other developing countries.

Though the European Economic Community (EEC) countries remain South Africa's most important source of foreign capital, their share has declined from 71,3pc in 1956 to 63,8pc in 1971 and to an even lower 55,1pc in 1981. The share of North and South America increased from 14,3pc to 17,5pc and to 23,1pc in the same bench mark years, the sharpest rises occurring in South Africa's recession years of 1974-76. In accordance with its greater international role in recent years Japan's investment in South Africa has increased, while the decline in Africa's share from a high of 4,9pc in 1966 to 2,4pc in 1981 was mainly the result of the more stringent foreign exchange controls introduced in Zimbabwe after independence.⁸⁶

For most of the period until c1981 South Africa remained a relatively attractive area for foreign investors. Van der Merwe and Bester have established that the average yield on foreign investments in South Africa remained relatively stable at between 6pc and 7pc from 1957 to 1981. (1957-1961: 6,5; 1967-1971: 6,9; 1977-1981: 7,0.) However, Seidman has shown that rates of profit of US firms in South Africa turned negative in the 'mining' and 'finance and insurance' sectors, and declined in manufacturing from 15,4pc in 1974 to 6,5pc in 1982.⁸⁷ Yields on direct foreign investment declined in the mid-1970s as South African economic

growth slowed, but those on non-direct investment rose in the 1970s mainly due to the higher returns on gold mining investments, following the rise in the gold price, and the higher rates of interest paid on the mounting foreign loans South Africa received since the early 1970s.⁸⁸

Any analysis of changes in the sectoral structure of foreign direct investment in South Africa is severely constrained by the fact that such data was last published in 1973. With the growing secrecy with which South Africa's international economic relations are being carried out, it seems unlikely that this data will be published again soon. While mining initially made up the greater proportion of foreign investment in South Africa, by the 1973 the manufacturing sector accounted for 45pc of direct long-term investment, followed by finance and insurance, and wholesale and retail trade, which made up 29pc and 14pc respectively.⁸⁹ The distribution of non-direct long term liabilities between mining and manufacturing stood at 29pc and 31pc of the total respectively, followed by financial services with 23pc of the total.

One indicator of more recent developments in this area is available from stock broker Davis Borkum Hare's report on foreign holdings in South Africa's mining shares. Their analysis for the period December 1984-June 1985 reveals that foreign shareholders owned 28,5pc of the total South African mining shares issued as at June 1985, compared with 27,43pc as at December 1984. However, the report noted that since May 1985 'steady disinvestment by foreigners of South African mining stock has taken place, chiefly because of political and economic uncertainty concerning South Africa.'⁹⁰ The normal delay in the transfer of shares, meant that these changes were not picked up by the study. The restoration of some degree of political stability after mid-1986 and the large discounts available on foreign share purchases via the financial rand may have subsequently counteracted this decline.

It is important to point out that foreign investment has, since the second World War, played an important complementary role in domestic fixed investment in South Africa as part of a national economic development strategy. During the thirty-year period since 1946, for instance, the net capital inflow on average amounted to 11,6pc of the annual gross fixed investment in South Africa.⁹¹ The high growth potential of the country in the post-war period acted to attract foreign direct and non-direct investment. These foreign funds complemented domestic savings and contributed to vast infrastructural and strategic investments which (as the recently appointed Reserve Bank Governor) Chris Stals observed in 1978, 'prepared the way for future development - the transport and communications systems, water and power supplies, chemical and steel industries and harbour facilities are good examples of how South Africa employed its domestic savings supplemented by foreign capital to pave the way for greater self-sufficiency...'⁹² These developments are indicative of the extent to which foreign capital of all types, interacted in 'partnership' with local and national sources in South African development since the war.

Approaches to the study of a country's relations with the world economy such as those based on modes of regulation ⁹³ and the internationalisation of capital ⁹⁴ have deepened and sharpened our understanding of these relations in such a way as to allow for the incorporation of a sophistication often lacking in dependency explanations. Another area in which this is evident is that of the interpenetration of capitals. Dependency-based analyses tend to focus on the unidirectional flow of capital from the advanced capitalist countries to the developing 'Third World.' As a result, virtually no attention is paid to the growth of and international diversification in the productive and investment activities of corporations in developing countries. These exchange-oriented approaches have, in other words, failed to capture the significance and implications of the recent growth of powerful conglomerates in many developing countries, especially in the NICs, which have themselves become internationalised. South Africa's giant

corporations including Anglo-American (AAC) and Barlow-Rand may be counted among these conglomerates.

It was Legassick ⁹⁵, but especially Kaplan ⁹⁶ who pointed to the emergence of this phenomenon in the South African case. Excluding gold reserves, which in South Africa's circumstances is an unusually large part of the country's 'foreign assets', the ratio of South African assets abroad to foreign investment in South Africa rose from 24,7pc to 31,6pc between 1956 and 1981. ⁹⁷ Especially in 1981/2, South African investment overseas picked up dramatically, with subsidiaries in a wide range of sectors rising 'like mushrooms' in various countries. Among these companies at the time were Triton (oil), CG Smith (sugar), Pick and Pay (retail), South African Breweries (beverages) Plate Glass (glass), and Boart and Form Scaff (engineering).⁹⁸ It was not only the giants which sought 'fresh havens' for their investments, and of course not all were successful.⁹⁹ But leading the charge with its overseas flagship Minorco, was Anglo-American, South Africa's largest corporation, which in 1982 was listed as the largest single investor in the US.¹⁰⁰ South African investment has been mainly in the advanced capitalist countries, especially in North America and Europe. Its investment in Africa has declined especially since the independence of Zimbabwe, which for some time was the principal location for South Africa's African investments.

Some recent examples of South African investment abroad provide one with a startling picture of the diversity and sophistication of South African industry. Anglo American Corporation's investment interest in South America is one such example. The corporation and its associates own the entire share capital of Anglo-American Corporation of South America (AMSA). AMSA and Minercao Morro Velho SA (MMV), its gold mining subsidiary have an interest in the Crixas gold project in the Brazilian state of Goias. AMSA's non-gold interests in Brazil include the Codemin and Morro do Niquel ferro-nickel mines; the Copebras carbon black phosphate and fertilizer group; the Catalao ferro-niobium mine and interests in the Bozano

Simonsen group, which is involved in banking, finance real estate, mining and farming. In Chile, Anglo has investments in the Mantos Blancos copper mine; in Argentina its investments include Petrosur, a fertilizer producer and Petroquimica Argentina SA, a petrochemical company.¹⁰¹ Barlow Rand is another example. Barlow's international interests are held largely through J Bibby and Sons, a company listed on the London Stock Exchange. Bibby's 'base of well established operations provides the group with the springboard for sustained international growth.'¹⁰² Through Bibby, Barlow has investments in the agricultural sector, in science products, mechanical handling, paper products and packaging and security printing. Among its diverse industrial interests 'the science products division (for example) is a world leader in the manufacture of single-use hospital and laboratory plastics and is Europe's leading producer of re-usable laboratory glassware.' the main plant for these operations is in the UK, with ancillary plants in Spain and France. Barlow's materials handling division distributes Hyster lift trucks throughout the UK, Belgium and the South Eastern USA, making it the largest Hyster distributor in the world.¹⁰³

These examples of the internationalisation of South African capital are (as Kaplan has observed,¹⁰⁴) an index of the growing sophistication of South African firms and of their ability to take advantage of changes in domestic and international conditions. Internationalisation has strengthened these corporations and left them more diversified, both geographically and in currency terms, in the process. The decline in the environment of profitability within South Africa since c1981 and the gradual easing of exchange control regulations undoubtedly spurred South African companies to invest abroad. The fact that these South African conglomerates were able to seize the opportunities which opened up, and were later in a position to use their overseas profits to diversify further, point to the need to recognise South African capital as not just dependent and 'under the iron heel of metropolitan interests', which determine and distort local development, but as creative,

adaptive and successful too, increasingly uninterested in expanding investments only or even primarily in South Africa, partly for economic reasons.¹⁰⁵

One aspect of the preceding analysis of capital movements which has been touched upon demands further comment at this stage, as it leads logically on to the analysis in the following chapters. And this relates to the dramatic increase in non-direct foreign investment, mainly loans, both short-term and long-term, and both to the public and private sector in the period since 1970. The most noticeable feature of foreign investment in the mid-1970s was the increase in the non-direct long-term indebtedness (borrowings) of South Africa's public corporations (parastatals) and local authorities. Increases of 54pc, 61,6pc and 34,5pc were recorded for the (recession-hit) years from end-1973 to end-1976 as compared to increases of 12,3pc, 20,2pc and 17,8pc for the private sector's non-direct long-term indebtedness in the same period. In Chapter 5 it will be shown that the greatest proportion of this was in the form of medium and long-term loans for the state's infrastructural and strategic investments.

The private and public sector contributed more equally to the dramatic escalation in non-direct foreign investment in the period between 1980 and 1985. Non-direct foreign liabilities increased fourfold in the period as compared to the twofold increase in direct foreign investment, so that by 1985 non-direct liabilities stood at R55 534m and direct liabilities at R27 927, ie half the 'stock' of non-direct investment. The sharpest year-on-year increases were generally in the private sector. Between end-1983 and end-1984, for example, private sector non-direct investment increased by 61pc. Most of this increase took the form of short-term trade-related loans, which were being encouraged by the South African Reserve Bank at the time. Short-term non-direct investments to the private sector increased by 92pc between end-1983 and end-1984, rising from R6 271m to R12 052m. The major creditors to both the private and public sector were foreign banking and financial

institutions. In 1981, for example 82pc of public sector borrowings were from foreign financial institutions.¹⁰⁶ However, South Africa's international borrowings also included loans from the IMF (over and above its reserve tranche limits) in 1975, 1976 and 1982. These borrowings are included in South Africa's international economic accounts under 'liabilities related to reserves' and classified as liabilities of the monetary banking sector.

We turn finally in this section to examine the implications for a country like South Africa, of the change in the balance of direct and non-direct foreign investment, which occurred in the 1970s and 1980s. While it is naive, in such an integrated world economy, to believe that individual nation states can hope to be truly independent over questions of economic growth, development and policy, it is equally naive and crude to believe that the nature of the interrelationships that exist are such that one group of countries (those in the periphery) are destined to a form of development (or underdevelopment) that is entirely determined by the pace, rhythm and needs of another group of countries (those in the centre). Direct foreign investment, which occurs at the discretion of the investor, has undoubtedly decreased national autonomy over economic priorities in the recipient country. As Kudrle observes

The growing interdependence of the world economy presents a threat to national sovereignty and direct foreign investment appears as perhaps the most palpable specific threat. The word 'direct' implies control by the foreign owned economic presence within a sovereign state, so that suspicion and conflict come almost automatically.¹⁰⁷

However, there has been a relative decline in direct foreign investment in developing countries since the late 1960s and a concomitant increase in borrowing from private international banks. In South Korea for example direct foreign investment accounted for 82pc of all capital inflow in 1960, and borrowing on the international money market only 18pc. By 1975, these proportions had been reversed.¹⁰⁸ We would argue that the nature of

international bank loans may increase the borrowers autonomy and freedom to manoeuvre on economic, social and political decision-making and development. This arises from the nature of control over the uses of foreign loans as compared to direct foreign investment.

Because private international banks, unlike multinational corporations, most often have neither the inclination nor interest in monitoring the use of their credit, borrowers, either the state or corporations, may experience an increase in their relative autonomy.

This change in the structure of outside finance must be clearly understood. In the case of direct investment, a 'captain of industry' from the centre takes the 'risk' of exploiting a peripheral force and tries to sell the product, either in the centre or elsewhere. He may have borrowed the money himself, but in any case he is acting on his own initiative and will repatriate any profits he may make. In the case of bank loans, the bank prevalidates the borrowers income. More specifically when the loan is advanced to finance the import of capital goods, the bank prevalidates a given strategy of development, but it is the firm or state which chooses the strategy.¹⁰⁹

The new danger, though as has already been pointed out in Chapter 2, is that of becoming mortgaged to the international banks. Private bank loans are usually short-term, with high floating interest rates and can be cut off if lenders become worried about the borrowers capacity to service the debt, or conditions in the international capital market change, or if there are fears about the political or economic stability of the country in question as the South African experience of August 1985 vividly illustrates.

The switch to international bank loans and credit both by the state and private sector in South Africa as the increasingly dominant form of foreign capital inflow since c1973 has in our view totally changed the earlier structure of South Africa's links, vulnerability and 'dependency'. These changes in the international dimension under which accumulation occurred, allowed the South African state to pursue policies of national industrial, strategic

and infrastructural development, mainly through the operation of its parastatals, with greater autonomy from the 'dictates' of direct foreign investors and it may be argued even from fractions of national capital. However, a new 'financial dependency' was produced. When Chase Manhattan Bank called in its loans to South Africa in mid-1985, the consequences of this new form of dependency became dramatically and painfully apparent, and caught South Africa's banking and monetary authorities by surprise. These developments will be examined in greater detail in the chapters which follow.

(6) CONCLUSION

This chapter has attempted to examine changes in nature and structure of South Africa's international economic relations in the period since 1970, against the background of the growing international economic crisis discussed in Chapter 2 and an intensifying domestic economic and political crisis. It has shown that a variety of changes in the global economy as well as in the South African political economy have contributed to a reshaping of South Africa's international trade, technology and investment relations in a way which has biased issues of foreign loans and financial investment at the expense of trade and direct foreign investment.

The chapter began with an analysis of the origins and central features of the crisis of the South African political economy. This analysis has been made in terms of the propositions of regulation theory, an approach whose ability to incorporate notions of crisis and change in a theoretically-informed study of a country's relations with the world economy over time, represents an advance over earlier modernisation and dependency theories. In terms of the propositions of regulation theory, a non-reproductive cyclical downswing in the South African economy was identified as having set in from c1974. It was argued that though exogenous factors, the rise in the price of imported goods and the instability caused by

the erratic price of gold, were important factors in transmitting to South Africa the growing crisis in the international economy after 1973, the nature, form and character of the crisis in South Africa were fundamentally affected by local economic, political and institutional developments and policies.

Two intensified periods of crisis within the longer term downswing were examined in more detail. These were the years 1974-1977 and 1981-1986. In both periods South Africa experienced serious economic and political upheavals, as well as balance of payments difficulties. Important changes occurred in both the international and domestic economic, political and institutional environment, which have affected South Africa's relations with the world economy. In particular the problems emanating from the slowdown in import-substitution industrialisation, the increase in black real wages, the escalation of political resistance to the apartheid state, the growth of an active independent trade union movement and the development possibilities and problems arising from South Africa's heavy use of private international bank loans have complicated and rendered less useful and satisfying those earlier analyses of South Africa's international economic relations which were influenced by the grand teleological approaches of modernisation and dependency theory.

While it is true that South Africa's relations with the world economy has affected the pattern and structure of this country's development, it is clear that post-war South African industrialisation, supported by foreign capital investment, did not fundamentally change the 'irrational' race-based nature of the South African social formation, as modernisation theory suggested would occur. It is also apparent that these 'external' links have not simply or always translated into 'vulnerability' of the kind suggested by dependency theory. In some cases the very nature of the 'dependency' has changed, reflecting changes in the international economic environment. This is most apparent in the case of the action of foreign banks in mid-1985, as we shall see

in Chapters 5 and 6. In other ways, changes internal to South Africa have created both development possibilities and problems of a kind not easily accommodated within a dependency framework. This chapter, while not denying the centrality of foreign trade, capital and technology in the country's development, and a certain dependency on capital goods imports and technology, has tried to show that South African capital has also been creative and responsive, and that certain historical and institutional developments have further strengthened the country, relative to the 'archetypal developing country', which underpins dependency theory.

Thereafter the chapter went on to examine the effects of changes in the global financial system and in the South African economy and political system on the country's international trade, technology and investment relations. In summary form, the following were the most significant changes which occurred in the nature and character of South Africa's international economic relations since the early 1970s.

First, although floating exchange rates 'freed' the dollar price of gold and allowed it to rise to significantly higher levels than at any time under the Bretton Woods gold exchange rate regime, various factors, including fluctuations in the value of the dollar (itself a symptom of the decline of US hegemony), produced highly erratic movements in the gold price and introduced an instability in South Africa's export earnings - gold being the largest single item in South African exports. Thus despite the benefits of a generally higher average price of gold to the crisis-ridden South African economy and the unique and stabilising value which gold has for long afforded the South African economy, gold's performance over the entire period 1970-1987 was also a source of concern, a mixed blessing at the very least. South Africa, de Kiewiet had argued, 'has advanced politically by disasters and economically by windfalls.'¹¹⁰ In the post-1970 era the windfall of the gold price rise was tempered by its volatility, though the political disasters went on unchecked.

Secondly, inflation and recession in the industrialised countries, South Africa's main trading partners, the increase in the oil price in 1973 and again in 1979, the virtual exhaustion of new opportunities for import-substitution industrialisation, and the country's highly inelastic demand for capital goods imports, all combined to keep imports at a level which either forced or continually threatened to force the current account into deficit. Economic recession as well as increasing concern about external trade imbalances in the industrialised countries virtually throughout the period since 1973, the limited extent of more direct state support for manufacturing production, a relatively high cost structure and growing pressure for trade sanctions, were some of the external factors which placed limits on the growth of South African manufacturing exports. When in the period of this study, the country ran current account surpluses (after 1976, and after 1984), these surpluses were largely induced by the introduction of severely restrictive economic policies.

Thirdly, while the increasing economic and diplomatic isolation of the apartheid state forced the country to develop and extend its own technological capacity, international ostracism especially after 1976, has acted to cut the economy off from easy and unproblematic access to new technological developments. Nevertheless, the country has developed, in some cases, has been forced to develop, an advanced and sophisticated indigenous technological capability. This is particularly true of technological developments in the armaments industry. The importance to South Africa of its mining industry has also stimulated research and technological development in gold and coal mining. These developments in armaments and mining are likely to have had important spin-off benefits for other sectors of the South African economy.

Fourthly, the gradual decline in the environment of profit-making after 1976, and from c1981 in the profitability of many sectors of

the economy, as well as increasing political uncertainty and instability led to a slow down in the flow of net direct foreign investment to South Africa.¹¹¹ Some estimates show that there was in fact a fall in the return to US direct investment in South Africa from 29pc in 1980 to 19pc in 1981, declining further after that.¹¹² The massive injections of US and European direct foreign investment, which characterised South Africa's international economic relations and changed the industrial landscape of the economy in the late 1950s and 1960s, had all but vanished by the mid-1970s.

Finally, the growth of the international financial market (Eurobond and Eurocredit), opened up new sources of international loans and credit for South African borrowers, both in the state and private sector. The massive growth in international lending to South Africa owed as much to the absence of more favourable alternative sources of bank profit-making opportunities in the industrialised countries, to South Africa's impeccable debt servicing record, to the country's willingness to pay higher than normal interest rates, and to the seizure by the state of the opportunities these funds created to bolster its infrastructural and strategic foundations, as to expectations of long-term economic development and or political stability in South Africa. For international banks in this period, the latter considerations, both in regard to South Africa and other borrowers, appeared less important than the prospects of quick profits to be gained from the recycling of the available funds. However, as South Africa's political stability further deteriorated, banks first responded by reducing the maturity structure of their loans to facilitate quick retreat. But all this changed even more dramatically in July and August 1985, as we shall see.

ENDNOTES

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2. Lipietz, 1987, p106
3. Gordon, 1988, p59
4. Gelb, 1987, p44ff
5. Gelb, 1987, p45
6. Gelb, 1987, p39
7. See for example, Ramos and Cassim, 1989, p16.
8. Kahn, 1988, p4
9. Kahn, 1988, p4
10. Kahn, 1988, p4
11. Data gathered mostly from the SARB Quarterly Bulletins, Various years.
12. Bell and Padayachee, 1984, p427
13. Gelb, 1988ms, p18
14. South African Statistics, 1982, Section 22.3
15. US Corporate Interests in South Africa...1978, p47
16. See Johnson, 1977, Ch 8 for more detail.
17. Murray, 1987, p146
18. Gelb, 1988ms, p21
19. South African Statistics, 1986, Section 7.7
20. SARB, Quarterly Bulletin, December 1986
21. CitiBank Report, March 1985
22. CitiBank Report, March 1985
23. de Kock, April 1987
24. Gelb, 1988ms, p21
25. SARB, Quarterly Bulletin, March 1987
26. Militz, 1985, p2

27. These issues will be discussed further in Chapters 5 and 6.
28. Corbridge, 1988, p3
29. Nedbank Survey, 1983, p115, and SARB, various years.
30. Sunday Times, 25.06.88
31. South African Statistics, 1988, Section 16.3
32. SARB, Quarterly Bulletin, December 1988, S-64
33. de Kock, November 1986
34. Freund, 1986, p4; Strydom, 1987, p212, Table 9
35. Leger, 1988, pp23/24
36. Nedbank Survey, 1983, pp118/9, calculated from figures from the Commissioner for Customs and Excise.
37. 1986, p4
38. Kaplan, 1983, p160
39. World Development Report 1985, p193
40. Kahn, 1988, p13
41. Kahn, 1988, p13
42. Morris and Padayachee, 1988a, p4
43. See Reynders Commission Report, 1972. I am indebted to Steve Gelb for drawing my attention to this point.
44. in Kaplan 1988, p1
45. Harris, 1987, p101; World Development Reports, various years.
46. Nedbank Survey, 1983, p119
47. Kahn, 1988, p14
48. Nedbank Survey, 1983, p119, calculated from data provided by the Commissioner for Customs and Excise.
49. Nedbank Survey, 1983, p120
50. Nedbank Survey, 1983, p121
51. World Development Report, 1985, pp198/9

52. In 1984, the US again became South Africa's main trading partner. See Strydom, 1987, p210.
53. Kaplan, 1983, p161
54. Pickles and Woods, 1988, p51
55. 1983, p161
56. Kahn, 1988, p15; Strydom, 1987, p210
57. South African Statistics, 1988, Section 16.3
58. Kaplan, 1983, p159
59. Kahn, 1988, p9
60. Nedbank Survey, 1983, p129
61. Lipietz, 1987, pp189/190
62. Kaplan, 1988, p6
63. Kaplan, 1988, pp14/15
64. Lipietz, 1987, p189
65. 1981, p52
66. Fransmann, 1984, p5
67. Flight and Lee-Swan, 1988, p88
68. 1988, p6
69. Thompson, 1987, p21 .
70. Interview with Evert Groeneweg, then Group Finance Executive, Barlow Rand, conducted by Mike Morris and Vishnu Padayachee, 02.12.87.
71. 1984, p183
72. 1988, p12
73. 1988, p1
74. CSIR Annual Report, 1983, p13
75. Report of the Study Group on Industrial Development Strategy...The Kleu Report, 1984, English version
76. Thompson, 1988, p20

77. 1987, p23
78. SARB Quarterly Bulletin, June 1983
79. van der Merwe and Bester, 1983, p27
80. Nedbank Survey, 1983, p148/9
81. Kahn, 1988, p16
82. Nedbank Survey, 1983, p150
83. Kaplan, 1983, p162
84. Bhana, 1987, p130
85. Sunday Tribune, 08.05.88
86. van der Merwe and Bester, 1983, p30
87. Seidman, 1986, p202
88. van der Merwe and Bester, June 1983, p31
89. McGrath and Jenkins, 1985, p29
90. Davis, Borkum and Hare, June 1985, Preface
91. Stals, 1978, p2
92. Stals, 1978, p2
93. See, for example Lipietz, 1987.
94. See for example, Jenkins, 1984.
95. Legassick, 1974
96. Kaplan, 1983a
97. Nedbank Survey, 1983, p151
98. Kaplan, 1983, p163
99. See Financial Mail, 19.10.84.
100. This is likely to have changed by the late 1980s, but any such change does not affect the point being made here.
101. AAC Annual Reports, 1985-1987
102. Barlow Rand Annual Report, 1987, p49
103. Barlow Rand Annual Reports, 1985-1987

104. 1983, p164
105. Freund, 1985, p2
106. Nedbank Survey, 1983, p151
107. Kudrle, 1985, p175
108. Lipietz, 1987, p106
109. Lipietz, 1987, p107
110. de Kiewiet, 1946, p89
111. See for example Padayachee, January 1987.
112. Seidman, 1985, p49, quoting figures from the US Department of Commerce, Survey of Current Business, August 1982, 1983, 1984.

CHAPTER FOUR

THE INTERNATIONAL MONETARY FUND AND THE APARTHEID STATE: 1970-1985

(1) INTRODUCTION

South Africa, as part of the British Commonwealth negotiating team, participated in the Bretton Woods conference on monetary policy, and was one of the original twenty-nine countries which signed the IMF articles of Agreement on 27 December 1945. Thus, South Africa's membership of the Fund happens to coincide, except for the first few years, with National Party apartheid rule. Smuts, in what was to be his last term as United Party Premier had played a central role in the creation of the United Nations system, which included the international financial organisations, the International Monetary Fund and the World Bank.

This chapter represents a study of the nature and character of the relationship between the apartheid state and the IMF, the main focus being on events and changes which occurred in the period between 1970 and 1985. The chapter examines these issues by:

1. noting and commenting briefly on South Africa's status and classification at the IMF,
2. placing South Africa's purchases and drawings (or borrowings) from the IMF in a comparative perspective, in relation to countries in Africa, southern Africa, and its present IMF group,
3. examining the controversy which erupted in the mid-1970s when the IMF launched a programme of gold auctions. We shall examine its effect on South Africa, South Africa's reaction to these sales, and the effect, if any, on the nature of South Africa's relationship with the IMF.

4. analysing South Africa's borrowing requests from the IMF, and the controversy over these, in the mid-1970s, and again in 1982,
5. attempting to examine whether South Africa's membership of the IMF, the conditions attached to its borrowing and or other such factors, affected or influenced the nature and direction of economic policy in this country, and finally,
6. examining the break in 1983 in South Africa's longstanding (and mutually beneficial) relationship with the IMF.

This ensuing discussion will demonstrate that, despite mounting criticisms from various quarters, the IMF continued to support the apartheid state, with massive direct financial assistance in the mid-1970s and again in 1982, being very accommodative in its response to the latter South African application. The South African state in fact capitalised on its 'ambivalent' status at the Fund, emphasising its 'developed status' as a founder member with a long history of sound relations within the world economy, on some occasions, such as over 'external currency convertability'; and its 'developing status', with an important economic responsibility in southern Africa and a large 'underdeveloped' population in need of economic upliftment, on other occasions, most notably in its applications to the Fund for financial assistance. IMF conditionality on South African loans remained minimal, although the Fund did on occasion narrowly criticise some aspects of South African economic policy, especially in regard to state intervention in restricting labour market mobility, and over exchange rates and subsidies to white farmers.

In general, however the IMF was highly accomodative of South Africa's requests, and this support, it will be argued, rested upon the role which South Africa came to play in the world capitalist economy, a role based on its stabilising political influence in southern Africa, its value as a supplier of strategic mineral resources and its relatively attractive investment potential. For

most of the post-war period these considerations appeared to guarantee South Africa of the support of international financial agencies such as the IMF, which continued to be dominated by the US and other western industrialised countries. For this entire period, the IMF-South Africa relation was functional to South Africa which benefited in terms of financial support and to the western industrial countries which dominate the IMF in terms of these political, economic and strategic advantages.

However, IMF support was abruptly cut off in 1983, primarily, we would argue, to complement changes in US foreign policy towards South Africa, changes which were precipitated by the rapid deterioration in the economic and political stability of the apartheid state. The deterioration in the South African political economy, escalating internal resistance and the mounting international campaign against apartheid, forced a reassessment by South Africa's long-standing western supporters of the tactics and policies they should pursue towards the apartheid state. These countries wished to encourage some change in a political system which was becoming unstable and an embarrassment to support unconditionally. Yet at the same time these policies and tactics had to stop short of supporting a slide into 'revolutionary transformation.' By tying future IMF assistance to certain moderate political reforms in South Africa, the US hoped to encourage a process of gradual political change in South Africa. The escalation in internal and international pressure against the apartheid state has, however, complicated the reversal of the 1983 IMF decision.

(2) SOUTH AFRICA'S CLASSIFICATION AND STATUS AT THE IMF

Up to February 1980 the IMF classified South Africa under the broad heading 'more developed, primary producing country'. Other countries in this grouping included Australia, New Zealand,

Finland, Greece, Iceland, Malta, Portugal, Rumania, Turkey and Yugoslavia. In addition, and until changes at the IMF in the second half of the 1970s, these countries were represented on the then twenty-person Executive Board of the IMF by one elected representative from among them. These countries, through its representative Executive Board Director exercised a bloc vote, a vote which was weighted according to their collective quota contributions to the Fund. In 1975, Australia, then governed by Gough Whitlam's Labour Party, expelled South Africa, because of its racial policies, from the group of countries it represented at that time on the Executive Board. Whether Australia took this decision after consulting other countries in the group is not clear. South Africa has since then been cut off from official representation on the Executive Board.

In 1976, South Africa's Ambassador at the Fund, Joep de Loor unsuccessfully engaged various countries including Belgium, Spain, Turkey, Austria, the new Fraser government in Australia, as well as some other minor European countries, in discussions, in an attempt to regain a permanent voice on the IMF's Executive Board.¹ However, South Africa's bargaining position on these issues was adversely affected by two main developments. First, the reorganisation of the Fund's quotas and voting blocs in the wake of the 1973 oil price crisis (OPEC I). The Fund had decided to accord more power to the Arab oil producing nations - with the possibility of granting at least one permanent seat on the Executive Board to an Arab oil producing country - in order to reflect the greater financial contribution to the IMF by these 'oil-rich' nations. Until such reorganisation was finalized there was some reluctance by other member countries, who were themselves not certain of what the reorganisation held for them, to make a firm decision in accepting South Africa.

Secondly, adverse political developments in southern Africa in the form of the South Africa's incursion into Angola in late 1975 and the Soweto student uprising in June 1976 briefly raised the more

fundamental issue of South Africa's very membership of the Fund. Debate at the United Nations following these developments focussed attention on South Africa's apartheid policies, and fuelled speculation there that South Africa might be suspended or expelled from the IMF and the World Bank - the United Nation's specialized, yet largely autonomous, international financial agencies. The United Nations resolutions to this effect did not, however, come to be debated or discussed at the IMF itself. Clearly the anti-apartheid sentiment at the UN, which led to calls for South Africa's expulsion from the Fund, was not shared by the IMF Directorate.

On the contrary, the Financial Mail, reported that a survey of sentiments at the IMF 'shows pressure to bring South Africa closer into the fold.'² There was apparently some talk of South Africa, which itself controlled more than 1pc of the IMF's total votes, heading a new grouping within the Fund. (At the time each bloc of countries had to have at least 3pc of the total vote to secure a seat at the Executive Board.) Thus, the Financial Mail³ reported that there was some talk among South Africa's 'advisors' that the country should 'hold out until the current reaction to Angola and Soweto dies down in the hopes of forming a Southern African seat with South Africa holding the director's chair'. However, this did not materialise and the issue was not raised thereafter. South Africa did not participate in the 1980 regular elections of Executive Directors and remains unrepresented on that board. It had effectively, as the New York Times put it 'been put at the back of the bus'.⁴ South Africa has not technically been stripped of its voting rights, though it remains unrepresented on the Executive Board. Until 1983, the apartheid state continued to have full, normal borrowing rights, exercising such rights in the mid-1970s and again in 1982 on a massive scale. Since 1983, however, its borrowing privileges have also been restricted.

In March 1980 the IMF adopted a new country-classification of its members. Australia and New Zealand were categorized with Finland,

Iceland and Ireland as 'industrialized countries', and South Africa and six other countries from its previous group were re-classified as 'Non-oil developing countries'. Within this overall category South Africa was placed in a sub-grouping of ten countries classified as 'major exporters of manufactures'. The other countries in this sub-group are Argentina, Brazil, Greece, Hong Kong, Israel, South Korea, Portugal, Singapore and Yugoslavia.⁵

South Africa was not satisfied with the IMF's decision to reclassify it in this way, or with the criteria upon which the new country classification was based. At the 1980 IMF meeting, the South African Governor to the IMF, Finance Minister Horwood, expressed 'surprise' at the Fund's decision to abolish the 'useful category' of 'more developed primary producing country'. He submitted that the new classification gave too much weight to the single criterion of per capita income and

not nearly enough to such factors as the versatility of the economy; the degree of industrialization; the sophistication of agricultural, industrial and mining technology and of financial institutions; the scope and magnitude of imports and exports and the dualistic nature of certain economies...Viewed objectively, South Africa's classification in the category of non-oil developing countries is quite incongruous.⁶

He urged the Fund, 'in the interests of meaningful economic analysis to look further into the whole question of categories with a view to finding a more realistic and more satisfactory classification of member countries'.⁷ It would appear the South Africa viewed the reclassification as a downgrading of its status, from being one among the few 'more-developed' (albeit primary producing) countries including the former Dominion countries Australia and New Zealand, to being one among many 'developing' countries. South Africa had after all, always regarded itself as being a 'major player' as a founder member of the Fund. This is evident in its decision to accept IMF Article VIII. Despite these protestations, South Africa still remains so classified.

South Africa was the first country on the African continent to have accepted IMF Article VIII, so joining in 1973 only about one-third of all IMF members who had accepted the obligations of currency convertibility required by this Article, as well as the associated commitments in terms of the General Agreement on Trade and Tariffs (GATT). In terms of the GATT charter, South Africa's acceptance of Article VIII meant that GATT classified South Africa as an 'industrial' and not as a 'developing' country.⁸

By accepting Article VIII and hence with it the obligation of currency convertibility, unhindered payments and transfers on current transactions (especially for non-residents) and the liberalising, anti-protectionist, free trade ideology underpinning the GATT, South Africa was clearly attempting to distance itself from other less developed and less well-endowed countries; to make the point that it saw itself as an integral part of the system, traditions and values of the western (world) capitalist economy; and perhaps most importantly, to provide a kind of signal to international traders, investors and bankers that they could sell and lend to, invest in and otherwise deal with her without fear of having their payments or loans or investments blocked, nationalized or frozen.

For long the producer of a commodity [gold] which has an international monetary attribute, South Africa...came to regard herself as more wealthy, or 'instantly liquid', than most other primary producers. This, and the associated highly developed nature of her financial structure, contributed to the forming of an 'attitude' to international monetary matters perhaps more suitable to a fully industrialized member of the big league than to a relatively less developed small primary producer...South Africa has an imperative...to adopt the most acceptable financial posture possible and to seek to abide by the spirit as well as the letter of all agreements.⁹

Although Article VIII obligations mostly affect international current rather than capital transactions, its acceptance is generally regarded as an important symbolic gesture of a country's intentions or policy in regard to all its international transactions. South Africa's dual exchange rate system first

introduced after the Sharpeville shootings in 1961, being a form of control over non-resident transactions, would plainly count as a contravention in spirit of its acceptance of Article VIII obligations. Nevertheless, neither the IMF nor the international financial community, in general, did any more than occasionally 'frown upon' the system.

This supportive attitude to the apartheid state, in contrast to that of many other non-industrialized countries, lends support to the view that South Africa's exclusion from direct representation on the IMF Executive Board since 1976 was in fact no more than an inconvenience to its operations and activities. As we shall see, this 'disability' did not, until partially in 1983, adversely affect its borrowing privileges nor did it affect in any serious way the favoured status granted to it by Western capitalist countries, most notably the US and UK who dominate IMF policy and decision-making when it really matters.

Furthermore, on certain occasions, South Africa cleverly used its IMF status as a 'developing' country to its advantage. In 1982, \$689m of its \$1billion loan from the IMF was granted under the Compensatory Financing Facility (CFF), a special Fund set aside for 'low income developing countries' who have little or no access to capital markets. At the time South Africa clearly had easy access to international capital markets, and other international financial agencies did not regard South Africa as a 'low income developing country'. The World Bank treats South Africa as a developed country, one with a high per capita income, and as such South Africa does not qualify for World Bank loans, which are mainly to middle and low income developing countries. The Bank for International Settlements in Basel, lists South Africa among 'other developed countries' along with Australia and New Zealand.¹⁰ Given these factors it is not at all clear that South Africa is a 'developing country'. Yet its formal classification by the Fund as a 'developing' country enabled it to receive the \$689m CFF part of the loan without there being a technical violation of the Fund's

criteria. This clearly limited the grounds for objections to the loan, which were made at the 1982 Executive Board meeting by the Alternate Director for India, Bangladesh, Sri Lanka and Bhutan, Mr. AS Jayawardena.

(3) SOUTH AFRICA'S IMF BORROWING IN A COMPARATIVE CONTEXT

Table 6 shows South Africa's purchases of IMF funds representing both borrowing and non-conditional drawings , ie purchases on its credit tranches ¹¹ and credit facilities such as the Compensatory Financing Facility (CFF) ¹² and drawings of Special Drawings Rights (SDRs) ¹³ between 1947 and 1985.

| TABLE 6 | |
|---|---|
| SOUTH AFRICA'S PURCHASES OF IMF CURRENCIES: 1947-1985 (SDR Millions) | |
| 1947-1958 | 46,2 |
| 1959 | - |
| 1960 | 12,5 |
| 1961 | 25,0 |
| 1962-1967 | - |
| 1968 | 62,0 |
| 1969 | 66,2 |
| 1970 | 125,0 |
| 1971-74 | - |
| 1975 | 91,2 |
| 1976 | 390,0 (CFF and ordinary credit tranche) |
| 1977 | 162,0 |
| 1978-1981 | - |
| 1982 | 902,2 (CFF and ordinary credit tranche) |
| 1983-1984 | - |
| 1985 | 70,0 |

Note: Unless indicated all other purchases represented non-conditional drawings (not borrowing) on the reserve tranche.

SOURCE: International Financial Statistics, 1985, 1986; Seidman, 1985, p241

TABLE 7

ALL PURCHASES BY AFRICAN COUNTRIES FROM THE IMF: 1947-1984*
(SDR Millions)

| | 1947-79 | 1947-84 | % Of Total |
|---|---------|---------|------------|
| Burundi | 36,3 | 36,3 | 0,29 |
| Cameroon | 40,8 | 60,8 | 0,48 |
| Central African R | 13,0 | 83,4 | 0,66 |
| Chad | 15,3 | 21,8 | 0,17 |
| Congo | 18,5 | 24,2 | 0,19 |
| E. Guinea | 2,8 | 22,1 | 0,17 |
| Ethiopia | 43,9 | 137,7 | 1,1 |
| Gabon | 17,5 | 24,6 | 0,19 |
| Gambia | 12,3 | 43,3 | 0,34 |
| Ghana | 204,9 | 702,0 | 5,61 |
| Guinea | 32,8 | 54,0 | 0,43 |
| Ivory Coast | 58,3 | 722,8 | 5,79 |
| Kenya | 212,9 | 631,8 | 5,06 |
| Liberia | 65,6 | 293,4 | 2,35 |
| Madagascar | 28,8 | 212,3 | 1,77 |
| Malawi | 35,9 | 177,0 | 1,42 |
| Mali | 35,4 | 107,9 | 0,86 |
| Mauritania | 20,7 | 71,2 | 0,56 |
| Mauritius | 54,0 | 187,4 | |
| Morocco | 291,1 | 1416,4 | 11,33 |
| Niger | | 45,2 | 0,36 |
| Nigeria | 19,5 | 405,6 | 3,24 |
| Rwanda | 14,1 | 14,1 | 0,11 |
| Senegal | 65,9 | 288,6 | 2,31 |
| Sierra Leone | 50,0 | 140,6 | 1,12 |
| Somalia | 23,7 | 140,1 | 1,12 |
| South Africa | 980,1 | 1882,3 | 15,06 |
| Sudan | 367,1 | 985,8 | 7,89 |
| Swaziland | 1,9 | 16,2 | 0,12 |
| Tanzania | 138,6 | 202,3 | 1,62 |
| Togo | 7,5 | 71,2 | 0,56 |
| Tunisia | 78,2 | 78,2 | 0,62 |
| Uganda | 66,3 | 444,9 | 3,56 |
| Zaire | 284,8 | 1977,6 | 15,82 |
| Zambia | 439,0 | 1225,7 | 9,81 |
| Zimbabwe | | 313,4 | 2,51 |
| African Purchases % of all IMF members | 7,5 | 13,4 | |

Note: Benin, Burkina Faso, Djibouti, Guinea Bissau, Lesotho, Sao Tome/Principe and the Seychelles each with purchases under 0,05pc of the African total have been omitted from this table.

SOURCE: Seidman, 1986, p241 (corrected and abridged);
International Financial Statistical Yearbook, 1986

South Africa's IMF borrowings and drawings are placed into perspective when compared to the use of IMF funds by other countries, firstly in Africa, secondly in southern Africa, and thirdly in its post-1980 IMF country classification. Table 7 shows the purchases by African countries from IMF between 1947 and 1984. South Africa emerges behind Zaire as the second largest African borrower from the IMF (15,06pc), its 1982 borrowing of SDR902,2 significantly raising the African share of world-wide purchases from the Fund in that year, as compared to other years shown.

TABLE 8

SOUTHERN AFRICAN STATES' PURCHASES OF IMF CURRENCIES: 1947-1984
(SDR Millions)

| | 1947-79 | 1947-84 | % of Total Regional Purchases |
|--------------------------|---------|---------|-------------------------------|
| Lesotho | 0,6 | 2,6 | 0,1 |
| Malawi | 35,9 | 117,0 | 4,6 |
| South Africa | 980,1 | 1882,3 | 49,3 |
| Swaziland | 1,9 | 16,2 | 0,4 |
| Tanzania | 138,0 | 202,3 | 5,3 |
| Zambia | 439,0 | 1225,7 | 32,1 |
| Zimbabwe | - | 313,4 | 8,2 |
| Total Regional Purchases | | 3819,5 | 100,0 |

Notes:

1. Zimbabwe did not receive any IMF credit under the minority Smith regime.
2. Angola whose application to join the Fund was only considered in July 1989, Botswana which made no drawings on the Fund, and Mocambique which only joined in 1984, are not included here.

SOURCE: Seidman, 1985, p220;
International Financial Statistical Yearbook, 1985

Table 8 shows that between 1947-1984 South Africa's share of IMF purchases amounted to nearly 50pc of all purchases of IMF funds by Southern African states.

The IMF clearly regarded South Africa as the key to its plan for the 'economic development' of southern Africa. The Fund has frequently attempted to influence other southern African states to open or increase their dealings with South Africa. In 1980 for example Zambia was asked, amongst other policy changes, to re-open its trade routes to South Africa in return for IMF assistance. As recently as the 1984 IMF-World Bank meeting, official South African delegates and Western commercial banks lobbied strongly to boost South Africa's role in the economic development of the southern African region. Seidman ¹⁴ notes that the South African delegation was 'delighted' with the outcome of these discussions. The decision by South Africa's major creditor banks to suspend new loans in mid-1985, appears to have altered this view somewhat. This is suggested for example by growing support by some Western companies, banks and the British government itself for other regional initiatives, such as SADCC, which was established primarily to counter South African power and influence in the region.¹⁵ South African monetary and financial officials have been at pains to stress the damaging effect on regional employment, electricity and transport linkages of imposing trade and especially financial sanctions on South Africa.¹⁶ Clearly the US, some European countries, the IMF and banks could not have been impressed with this line of argument. Restrictions on new IMF and bank loans to South Africa continue to this day. However, this is not to imply that they would not overtly support South Africa's regional policy in the event of the real possibility of political upheaval in southern Africa.¹⁷

The IMF has, as we have already noted, since 1980 classified South Africa as a 'non-oil', developing country'. Within this category South Africa was placed in a subgrouping of ten countries classified as 'major exporters of manufactures'. South Africa's share of IMF purchases and drawings, as compared to other countries

in this sub-group, amounted to 10,16pc of all purchases/drawings between 1947-1985. It has in that time drawn more from the Fund than Greece, Malaysia, Israel and Portugal (see Table 9) but not more than Brazil and Argentina (both of whose recent debt problems led to large borrowings since 1983), Korea and Yugoslavia. However, if one excludes purchases and drawings since 1983, the year in which South Africa's borrowings from the Fund were partially restricted, South Africa ranked second behind Yugoslavia as the largest borrower from the Fund in this sub-group, its drawings/purchases making up almost 20pc (19,06) of total IMF purchases.

TABLE 9

PURCHASES FROM THE IMF: 1947-1985 (SDR Millions)
NON-OIL DEVELOPING COUNTRIES WHO ARE ALSO MAJOR EXPORTERS OF
MANUFACTURES*

| COUNTRY | TOTAL | % OF TOTAL |
|--------------|---------|------------|
| Brazil | 5224,1 | |
| Argentina | 3706,2 | |
| Yugoslavia | 3624,2 | |
| Korea (S) | 2489,9 | |
| South Africa | 1952,3 | 10,16 |
| Portugal | 912,9 | |
| Israel | 563,4 | |
| Malayasia | 465,9 | |
| Greece | 282,3 | |
| | 19221,6 | |

NOTES: * Excludes Hong Kong for which separate statistics are not provided in the 1986 International Financial Statistics Yearbook.

SOURCE: International Financial Statistics Yearbook, 1986

(4) THE IMF'S GOLD AUCTIONS: ITS EFFECTS ON THE ECONOMY AND POLITICS OF SOUTHERN AFRICA (1976-1979)

The IMF's gold auctions of the mid-1970s must be seen in the context of the breakdown of the Bretton Woods system, the oil price crisis of 1973, widespread recessionary and inflationary conditions throughout the industrialized world and the attempts at restructuring the international financial and monetary order.¹⁸ The Bretton Woods system was based on American economic hegemony at the end of World War II. By the early 1970s as we have seen there was an undoubted weakening of the US's economic strength, symbolised most notably by its balance of payments deficits and the declining value of the dollar.¹⁹ But if the US was having serious economic problems, there were even worse problems facing some of the other major capitalist powers. The British and Italian economies in particular were near collapse, the British being forced to turn in desperation to the IMF for a \$3.9 billion loan in 1976.²⁰ The French economy was only marginally better off. Thus US's attempts to reassert its dominance over international economic affairs, of which their own Treasury and IMF gold auctions were but one instrument, often led it into bitter conflict with its major capitalist rivals, especially France.

These international developments and manoeuvrings soon made themselves felt in South Africa. As Johnson comments 'gold on which so many of [South Africa's] hopes rested, lay at the disputed centre of the international financial system'.²¹ At the Rambouillet conference in November 1975, France, having relaxed its long championing of the cause of gold, and the USA, having conceded most of what the French wanted over fixed exchange rates, agreed that an earlier (August 1975) IMF decision on gold auctions should go ahead. This agreement formed the basis of the new IMF Articles of Agreement proposed at the annual IMF conference in Kingston, Jamaica, which significantly altered, though it did not totally diminish, the role of gold in world economic affairs. The new Articles proposed the abolition of the official gold price of \$42.22 an ounce, the ending of the gold quota payment to the IMF, and authorised the IMF to dispose of its gold holdings. The US's

own gold auctions and then the IMF decision, undoubtedly at US insistence, were designed to stop and then reverse the rise in the gold price, 'a veritable index of America's economic weakness and thus a sort of inverted virility symbol of US Treasury secretaries'.²² Rather than trying to prevent the rise in the gold price by fixing its value, the US had adopted a strategy of flooding the market with gold. The idea was to demonstrate that gold was unacceptable as a means of payment for international transactions. Both a decline in the gold price and its instability or fluctuation would, it was felt, achieve this purpose. The dollar would then once again be 'called upon' to replace gold.²³ Alternatively or additionally this function could be given over to the US-backed Special Drawing Rights (SDRs), the IMF's instituted world currency.

IMF gold auctions began on 2 June 1976. The plan was to sell 1/6 of the IMF's total gold holding (or 25m ounces) over a four-year period by holding eight auctions a year at roughly six weeks intervals.²⁴ Though the objective of reducing or demonetising gold was no secret, the decision to use IMF gold auction profits for the benefit of the developing world (by providing these countries with soft loans from the finance so raised) was the carrot at the end of the anti-gold stick. The system of bidding and pricing at the first two auctions for example appeared not to facilitate the maximization of revenue from such sales. Bidders paid only the IMF's predetermined, but obviously secret, selling price, even though they may have offered more, which supports the view that the main objective was something other than that of raising development finance. The US also fought hard, though not entirely with success, to have the IMF staff (who as we have noted are very amenable to the US position on most matters) control aspects of the IMF's gold auctions. This move, which was partially blocked by France and some other European countries would have increased the US's control over the auctions. It was reported at the time of this struggle over the control of the auction that the 'US will try to use the IMF auctions to create as much uncertainty as possible in the private

gold market'.²⁵ Eventually it was decided that although the IMF managing director (and staff) would propose how much gold the Fund would sell and at what price after all the bids were in, the final decision would rest on the IMF Executive Board, where the Executive Directors more directly represent member governments, and hence reflect their government's political interests more immediately.

Although the major thrust of the US-backed IMF gold sales was, in our view, directed at restoring the US to the centre of world economic affairs, ie of restoring US hegemony, the auction offered the US the opportunity of using the circumstances to achieve other international economic and foreign policy objectives. France, the USSR and southern Africa were the countries and regions at the centre of these other US initiatives, initiatives which were spearheaded by Secretary of the Treasury William Simon and Secretary of State, Henry Kissinger.

Simon and Kissinger were both tough, ruthless conservatives; they both perceived the central importance of international economic questions to US foreign policy - together they dominated Gerald Ford and made themselves the leading arbiters of the world's political economy, fully exploiting America's dominant position in the international agencies to which the depression (of the mid-1970's) had lent a new significance.²⁶

The most important of these 'agencies' was of course the IMF, and Johnson remarks that Simon had little difficulty in imposing himself almost entirely on the IMF.²⁷ This was clearly not a problem, given the weight of the US's voting strength at the IMF Executive Board, the fact that the IMF Deputy-Director has to be a US citizen, and that the IMF staff are invariably supportive of the US position. It is to an examination of the way the US through the IMF (and in particular its gold auctions) attempted to settle some thorny issues in its southern African regional policy, as well as to the effects of the auctions on the South African economy, that we now turn.²⁸

Since Bretton Woods, South Africa's gold production and reserves had given her an important, - some would say respected, place in international economic affairs. Until August 1971 in terms of the Bretton Woods gold-exchange system, gold remained the central underpinning of international financial transactions, though its importance as an international means of payment had declined some years before. The effective collapse of the Bretton Woods system precipitated a restructuring of international economic relations in which gold's importance was significantly reduced. While South Africa saw the resurrection of gold as an important part of the resolution to the world economic crisis, others such as the US saw its shortcomings as a principal reason for the crisis and planned their strategy, including the IMF gold auction, on the premise that gold ought to be demonetised. The US strategy succeeded in keeping the price of gold relatively low between 1976-1978. The gold price was still significantly higher than at any time under the Bretton Woods system. As important, however, was the fact that the gold auctions had the effect of producing major fluctuations in the gold price. After the second gold auction on 14 July 1976 the gold price collapsed to \$107, and even after a partial recovery, remained at just \$113 a month later.²⁹ This instability was to have serious consequences for the South African economy and its balance of payments at a time when the higher oil price (and oil embargo threats) were already placing strains upon her external accounts. (The economic and political difficulties which confronted the apartheid state in the mid-1970s have already been assessed in Chapter 3.)³⁰

Although the timing of the first three IMF gold auctions broadly coincided with the Soweto uprising (June-September 1976) there is no evidence that the IMF auctions represented part of a direct western 'reprimand' of the apartheid state for the brutal manner in which the 1976 student-led protest was put down. However, the gold auction and the effect it had on the price of South Africa's major export, offered the US the chance to reach a settlement in another of southern Africa's troubled countries, viz. Rhodesia.

South Africa lay at the centre of the Kissinger strategy for the settlement of the long-standing crisis in that country which declared UDI from Britain in 1964. The IMF gold auctions and related developments were used to pressurize South Africa into forcing the minority Smith government to accept the principle of black majority rule.

In the wake of the Vietnam War syndrome and the Watergate scandal of the early 1970s, and given the November 1976 US presidential elections, some major foreign policy success was seen as important to the Ford Administration. Kissinger saw Africa, especially southern Africa, in terms of the global balance between the superpowers, and especially after the debacle of the US 'involvement' in South Africa's abortive raid into Angola in late 1975/early 1976, Washington was anxious to push for a peaceful transition to moderate black majority rule in Rhodesia and also Namibia and so head off the possibility of (what it perceived to be) Soviet-Cuban intervention there.³¹

Kissinger became convinced that the Vorster government was the key to any peaceful solution in the region, a point also made to him by several African leaders he had spoken to in his mid-1976 tour of Black Africa.³² However, there were two problems here. First, Pretoria was in no mood to do Washington any favours. It felt bitter at what it perceived to be US 'treachery' over the Angola raid, and the effect of the US-backed IMF gold auctions were compounding South Africa's balance of payments problems. Second, it appeared that Vorster had gone as far as he dared in exerting pressure on Smith. There were considerable domestic political risks for the Vorster government. 'So if Vorster was to lean hard enough on Smith, Kissinger would first have to lean on Vorster'.³³

As early as June 1976, just before the Soweto uprising, the South African government found most long-term capital (bond) markets effectively closed. Graham Hatton of the Financial Times reported that

In the run-up to the crucial Kissinger-Vorster-Smith meetings in Pretoria (South Africans) suddenly found the money taps of America and Europe inexplicably being turned off. Although it has never been officially confirmed, the firm belief here is that the American State Department was at work behind the scenes.³⁴

The effect of all this was to temporarily deprive South Africa of access to private international bank loans which the country so desperately needed to see her through her balance of payments crisis. Furthermore, the Financial Mail reported that in the Kissinger-Vorster talks in Zurich on 4 September 1976 the US Secretary of State 'is probably using gold as a lever: deliver on South West Africa and Rhodesia and we'll take the pressure off the gold price. Only the participants know if the stick had been waved so bluntly...'³⁵ Obviously South Africa could never admit to 'surrendering' white rule in Rhodesia for foreign loans and a higher gold price, but the stick must have been waved. On 15 September, the second day of the Vorster-Kissinger talks in Pretoria, the third IMF gold auction took place despite protests from the Russians (who, faced with the prospect of paying off their trade deficit with the US, was a significant gold producer, not at all happy with the falling gold price) and the Italians (whose gold reserves, pledged as collateral for a \$1,5 billion loan from West Germany, fell in value rapidly). Consequent upon the auction the gold price fell by \$13. The IMF announced the date for the next auction (27 October) immediately. The pressure on South Africa intensified further. There appeared little chance of a let-up in the immediate future.

On 24 September 1976 Smith agreed to a transfer of power to Rhodesia's six million blacks within two years. Kissinger and Vorster had made Smith an offer that he could not have refused. However 'for all his efforts in helping to force Rhodesia to accept black majority rule Vorster seems determined to maintain white minority rule through separate development'.³⁶ Vorster and South Africa nonetheless were to be rewarded despite this. In the days

immediately after the Pretoria talks the gold price rose to \$115 and \$120 by the end of September 1976. London stock-broker James Capel in its weekly review of 27 September noted that the US and SA had done a deal over the gold price: 'the US would allow the price to rise to such a level as to let the South African economy off the hook'.³⁷ And in a surprising move, given his previous 'uncaring' attitude to possible erratic movement in the gold price, William Simon indicated that he would consider more frequent gold auctions, which would be less disruptive to the bullion market.³⁸ Though such weekly auctions never did occur 'what was sensational was that Simon should appear to care about disrupting the market, that he should talk earnestly of the need for stability in the gold market'.³⁹ Furthermore, T.W. Wolfe, a 'renowned anti-gold hawk' and former head of the US Treasury's Gold Policy office, was predicting a gold price of over \$200 an ounce. Thereafter the gold price climbed steadily, if not spectacularly, 'taking the IMF auctions in its stride'.⁴⁰

The IMF's gold auctions continued until 1979. The rapid increase in the gold price after August 1978, when gold crossed the \$200 an ounce mark does, however, suggest that the IMF auctions had indeed some limited impact in preventing the dollar price of gold from escalating too rapidly in the period 1976-1978.⁴¹ But were there other political and economic implications for South Africa?

Three potential problem areas for South Africa will be discussed briefly. First, we shall comment upon why South Africa itself in the mid-1970s appeared less vulnerable to international financial pressure than Rhodesia. Secondly, we shall consider the effects of the falling gold price on South Africa's mining production, and thirdly the effects, if any, of the IMF gold auctions on the long-term relationship between the Fund and the apartheid state.

The gold auctions of 1976-1979 clearly added to the general instability of the economy and contributed to the growing crisis of the South African political economy. However, South Africa appeared confident that it could survive these pressures. Given an

economic and strategic importance within the world economic system, an importance and role which had evolved over decades, there appeared, for example, little fear at the time that it would be forced through financial pressure into making the same political compromises as Rhodesia. It was, unlike Rhodesia, an independent sovereign state, and it had been received in many international forums as a respected member, however distasteful its racial laws may have been considered. Smith's Rhodesia was both politically vulnerable, being a renegade nation; hopelessly dependent upon South Africa's favours and hence vulnerable to South African pressure; it was landlocked and easily isolated. Furthermore despite South Africa's political problems of the mid-1970s, resistance to the apartheid state was nowhere near the level of generalised warfare which prevailed in Rhodesia in 1976-1979. Although there are some similarities between Rhodesia and South Africa, both being open, primary-producing countries, using foreign capital and technology, South Africa has, even after 1985, been able to more successfully put off, resist or deflect international financial pressures designed to bring about changes in its political system. But this may change at some point in the near future as this pressure intensifies further.

In 1976, South Africa's mineral export earnings surpassed gold earnings for the first time since the discovery of gold, and this gave South Africa hope that it would 'live through the gold price slide'⁴². The uncertainty over the price of gold did not appear to threaten gold production. The Economist estimated that most mines would still be profitable at \$100 an ounce, the average cost of production in June 1976 being \$72. The twelve highest cost producers, were mostly old and marginal in terms of profit and output and had inadequate facilities, and would lose if the gold price fell below \$100. But the breakeven point for the rest was estimated at a low \$63.⁴³

Finally, the IMF gold auctions do not appear to have represented any direct or long-lasting deterioration in South Africa's

relationship with the IMF. Although South Africa could not have been entirely pleased with all aspects of the IMF's gold auction, especially its timing, the bidding method and the dampening effect on the gold price between 1976 and 1978, the country emerged at the end of 1976, ie after the temporary politically-induced squeeze applied on it by the US, with its standing and borrowing rights at the IMF unaltered,⁴⁴ as the receipt of an IMF facility in November 1976.⁴⁵

(5) SOUTH AFRICA'S LOANS FROM THE IMF (1976, 1982)

South Africa received its first stand-by credit arrangement or loan from the IMF in 1957/58. Like the UK's stand-bys of 1957 and 1958 these arrangements were agreed to without conditionality⁴⁶ or phased disbursements, which even in those early formative years of IMF lending were being imposed on other borrowers, mostly notably the Latin Americans.⁴⁷ This example typifies the rather cosy relationship which characterised SA-IMF dealings throughout most of the post-war period. The Seidmans note that by 1972 the IMF was providing almost 60pc of all short-term non-direct investment funds available to South Africa from the central government and banking sector. This (unreferenced) figure appears oddly high.⁴⁸ Yet if this type of funding was even half of the figure the Seidmans claim, it would still reflect

the supportive role played vis-a-vis South Africa by this official financial institution, controlled by the Western developed nations. In particular, the IMF provided a critical source of funds to off-set South Africa's chronic balance of payments deficits.⁴⁹

This balance of payments support, provided by way of loan agreements in the mid-1970s and again in 1982 best illustrates the special nature of the relationship between South Africa and the IMF. It should be noted at the outset of this analysis that the loans to South Africa will be judged against the IMF's own lending policies rather than against any other norm. This will enable us

to determine the extent of any preferential treatment received by Pretoria in its dealing with the IMF, in terms of the kind of role which the IMF has come to play within the post-war global economy.⁵⁰ We will begin by looking at the general background to the mid-seventies loans, and then at the IMF meetings of January and November 1976.

The IMF provided South Africa with credits of SDR91,2m in 1975, SDR390m in 1976 and SDR162m in 1977. These mid-1970 borrowings were, according to South Africa and IMF sources in support of the South Africa government programme to strengthen the country's balance of payments position. The SDR160m purchase from the Fund announced on 15 November 1976⁵¹ for example, was made under the Fund's Compensatory Financing Facility (CFF) with respect to an export short-fall experienced by South Africa during the twelve month period ended August 1976. The success of the US policy to depress the price of gold in the mid-1970s which was carried out partly through the IMF gold auctions, and the resultant instability in its price, affected South Africa gold exports and hence its balance of payments. Despite South Africa's efforts to counter these pressures by introducing the new Krugerrand and cutting gold production, with her 'gold crutch', as Johnson calls it 'knocked out from under her, South Africa slid rapidly into a deep recession'.⁵² Clearly, the current account of South Africa's balance of payments had weakened from about 1974 as a result of the decline in the price of gold, the prolonged recession in South Africa's main trading partners, increases in the cost of imports because of inflation in the West, the increase in oil prices and what the IMF called 'expansionary demand management policies'.⁵³

The case that South Africa put to the IMF thus emphasised mainly externally-induced factors, lagging exports, declining reserves and a deterioration in the balance of payments. But there were other factors affecting the balance of payments as well, such as the rapid increases in strategic and defence expenditure which led to the budget deficits, and in turn, to increases in money supply,

to inflation, to a weakening rand and finally, to balance of payments problems. From 1972 to 1975 defence expenditure rose by 97pc in real terms.⁵⁴ The confidential IMF Study of April 1977 noted that 'defense expenditure has been a major cause of the rapid increase in total current expenditure.'⁵⁵

Though defence and law and order expenditure had been increasing from the early 1970s, following internal resistance and external concerns (mainly the issue of Namibian independence), the sudden urgency for funds around January 1976, the month of the first application to the Fund in that year, must be placed within a wider context. As Johnson dramatically notes

By January 1976 all eyes in South Africa were fixed upon a single object - the advance of Cuban troops towards the Namibian border...Beside this all the crises of the 1970s paled. The thing which Pretoria had so long predicted, but so little really believed, had come to pass. A communist army was marching through Angola towards her.⁵⁶

And Soweto, the single word that has come to symbolize the uprising of 1976 whose roots were in themselves not unrelated to the recession, was to prove a major influence in the further downward drift of the economy. In the politically sterilised offices of the IMF Executive Board these matters must have loomed large but were never raised directly. At the Executive Board Meeting of 21 January 1976 in Washington DC the first South African loan application for that year was opposed on economic grounds by the Executive Director for Belgium, Austria, Luxembourg and Turkey, Mr J de Groote, who argued that South Africa, with one of the world's largest gold stocks to back up its currency reserves, might not really need the Fund's assistance and might easily be expected to be a net contributor to the Fund rather than seek its aid. He was also critical of South Africa's conservation policy, ie of cutting back production every time the world price rose and of 'keeping gold off the market' rather than selling it at lower prices to cover the balance of payment deficit. He concluded by arguing that 'the

current account deficit expected in 1976 was not entirely beyond the control of the authorities'.⁵⁷

The application was also opposed by AW Yameogo, the Executive Director representing seventeen West African nations who stated that South Africa could raise the money it needed by using its gold as collateral. Yameogo said that South Africa's problem was 'long-term and structural, its treatment of the Black population' whose 'education is not free' and whose wages and salaries are 'very low relative to those of Whites. The distribution of income and of opportunity in general [is] heavily weighted towards the White population. In the future when South Africa needed increasingly skilled and literate workers to compete in the world markets it would not have them'.⁵⁸ Both these arguments were carefully worded in economic terms, the only kind of argument overtly acceptable in IMF forums. However, the application was backed by the US and UK who both spoke strongly in favour of the request. Peter Bull, representing the British Labour government stated at this January meeting that the stand-by arrangement 'would give the [South African] authorities...some feeling of international support which they deserved'.⁵⁹ The request was approved.

In November 1976, five months after the Soweto uprising began South Africa returned to the IMF with another loan request, this time under the Compensatory Financing Facility (CFF). Whereas to gain approval for its earlier standby South Africa had merely to show a need and a programme to correct its balance of payment, for the CFF (a temporary export shortfall facility) South Africa had to argue that its balance of payment was caused by factors outside its control. An IMF staff analysis of South Africa's export performance supported South Africa's request for aid. However the staff analysis was severely criticised by some of the Executive Board directors at the IMF meeting. Executive Director Dini representing Italy, Spain, Portugal and Malta accused the IMF staff of rigging the Fund's own statistical formulae to favour South Africa's case. He found the analysis 'suspect' because its estimate of export

earning shortfall happened to coincide exactly with the maximum amount South Africa could request from the CFF. The West German delegate, Pieske, also found that coincidence remarkable and flatly stated that the projected shortfall had been 'tailored to the size of the requested drawings'.⁶⁰

However, the US Executive Director found the staff's handling of the statistics 'entirely reasonable' and South Africa got its loan with US and UK support. Interestingly, (whether true or not) the confidential April 1977 IMF study to South Africa quoted US sources as stating that foreign investment in South Africa paid the highest return of any foreign investment in the world, a fact that along with what was perceived to be the high strategic value of South Africa's mineral exports and its stabilising role in the region goes far to explain the enthusiasm of Anglo-American support for the apartheid regime at that time.

Over the 40 year history of the IMF it has been extremely rare for loan applications which have reached Executive Board level to be debated at all. Normally, any request that reaches the Executive Board is assured of approval.⁶¹ IMF staffers do not pass on a loan application for the Board's formal approval unless they are certain that it will be approved. That has been the tradition of the IMF's method of operation. Thus while the debate over the South African application was unusual, there was no chance of the application being rejected. In any event the voting strength and structural influence of the US and UK vote on the IMF was sufficient to steam roller the South African requests through.

The continued IMF support for South Africa in 1977 (SDR 162m) is evidence that while, on the one hand, the then Carter administration was castigating what it called the 'white supremacist South Africa regime' in public, it was on the other hand quietly greasing South Africa's palm.⁶² However, as a report in the US weekly Nation⁶³ notes, on certain occasions such as the South African and Argentinian requests of the mid-1970s the Fund

has come under severe criticisms from its own (non-US) Executive Directors but has been supported by the US Executive Director, who invariably endorses IMF staff procedures.

Argentina and South Africa are two of the countries that gained by these procedures, according to the objecting executive directors; Jamaica and Peru are two that lost. The former two are among the worst human rights violating regimes in the world today, [the 1976 coup in Argentina began the Dirty War] while the latter two are at least attempting to follow democratic or Populist courses acceptable to a broad majority. Already, even without the discretionary power of the Staff, the IMF's general rules of conditionality are structured to favour undemocratic regimes willing to impose painful austerity programmes on the poor majority, usually by violence.⁶⁴

Gisselquist⁶⁵ notes that the IMF loans to South Africa in November 1976 and 1977 helped to steady South Africa's foreign bank creditors in the face of the Soweto riots. Thus the IMF, and especially the US and UK vote within it, played an important support role by overriding economic and the obvious but unvoiced political and moral objections to support, in times of political uncertainty, a member country which was closely integrated into its international network of trade, investment and strategic interests. In fact the IMF balance of payment assistance to South Africa in the two years 1976 and 1977 (when most developing countries were experiencing severe external economic difficulties) was greater than the combined IMF assistance to all other African countries for the same period. In those two years, only two other countries, Britain and Mexico were bigger beneficiaries of IMF aid.⁶⁶

The years 1977-81 witnessed an increasing deterioration in the state of the world economy which affected most developed and developing countries. Problems of stagflation, exchange rate co-ordination, adjustment procedures to deal with balance of payments deficits, and mounting debt were some of the issues which dominated international financial discussions. In the wake of the Thatcher (1979) and Reagan (1980) electoral successes, a much tougher line as regards financial assistance to developing countries was

beginning to emerge. This was in line with the emergence of a new brand of radical conservatism in these countries.

South Africa's Finance Minister Horwood however, was able to report at the annual IMF-World Bank meetings in these years that South Africa was doing rather well, having turned around the 1974-76 balance of payment deficit. The country ran current account surpluses between 1977 and 1980. Horwood attributed the success to South Africa's monetary and fiscal restraint. 1979/80 were also the years of the brief gold-led boom in the South African economy. The gold price averaged \$613 (R477) in 1980.⁶⁷ However, in 1981 with the gold price declining sharply and imports surging, South Africa once again ran up a deficit on the current account of the balance of payment in the order of a massive \$4380m. By mid-1982, South Africa, despite numerous denials by top financial officials,⁶⁸ approached the IMF for a stand-by loan of \$1,1 billion.⁶⁹ South Africa had already drawn \$122m from its reserve position in the Fund and declared its intention to draw an additional \$132m through the SDR account. These are automatic and non-conditional borrowing rights that a member may choose to exercise.

South Africa's approach to the Fund was made in mid-1982⁷⁰ but on US advice⁷¹ was not announced until October 1982, a few weeks before the IMF Executive Board meeting. The expectation that the application would be controversial was to prove correct. Opinion ranged from those who urged that the loan not be approved under any circumstances⁷² to those who stated that the loan should be approved on condition that South Africa abolished 'apartheid imposed' rigidities.⁷³ Thus the Economist argued that

the loan should come in the normal way with conditions attached. Unfortunately, in its anxiety to avoid trouble the IMF is tempted to pretend that apartheid is economically speaking an irrelevance. That is rather like visiting Cape Town and overlooking Table Mountain. An IMF that feels obliged to tell other borrowing member countries to raise food prices (eg. Egypt); to devalue currencies (eg. Sudan) and temporarily to reduce living standards (eg. almost everybody) should not remain silent about labour-market rigidities in South Africa.⁷⁴

Others such as the Wall Street Journal were concerned that any moves to deny South Africa the loan would amount to a politicization of the Fund. However, the Journal went on to point out that it was not

wild about the idea of an IMF loan to South Africa, or any number of other countries for that matter. In our view, South Africa has a fundamentally sound economy and it could easily bridge its temporary balance of payments problems by going to commercial banks for a loan. It would pay a higher interest rate, but with world credit already stretched so thin we can see no reason for taxpayers to subsidize those who can make it on their own.⁷⁵

As is evident from these two quotes, objections to the South African request took various forms and emanated from various quarters. Five IMF Executive Directors lodged strong technical and economic arguments against the loan at the Board's meeting of 3 November 1982. They argued that the South African loan did not meet the standard of conditionality imposed on other borrowers, in addition to questioning the need for the loan based on IMF predictions of a \$1,6 billion South Africa trade surplus for 1983, and a debt service ratio of 7,9pc, expected to drop to 7pc in 1983. It was pointed out that South Africa was creditworthy enough to meet its requirements without any difficulty on the international capital market. Korner et al commenting on these arguments note that it was likely that the 'South African regime was primarily interested in the aura of international approval which goes with IMF loans and [that this] would thus demonstrate to critics and sceptics at home and abroad how ineffective UN boycott calls are'.⁷⁶ The loan was only partly drawn upon and repayment, which continued until 1988, began earlier than scheduled - considerations that add weight to the validity of these arguments. South Africa was able to use its status as a 'developing country' to acquire easy IMF assistance, for reasons other than 'purely financial' ones.

It was further argued at the Board meeting: (1) that the loan package was heavily front-loaded ie. that South Africa got 80pc of

its \$1,1 billion before fulfilling any conditions at all; (2) that South Africa had exercised inadequate budget restraint, citing its heavy defence expenditure; (3) that there was insufficient monetary control citing as an example the subsidies to white farmers; (4) that the distortions and artificial barriers to employment and job mobility created by apartheid had to be among the conditions set by the IMF before it approve the loan; (5) that the decline in South Africa's interest rate shortly before the meeting and the move by the South Africa Reserve Bank to lower reserve requirements for commercial banks were contrary to the restrictive monetary policies that the IMF would normally insist upon.

Some Western representatives did criticize the contents of the loan programme. For example, there was broad consensus on the need for South Africa to undertake structural adjustments in regard to labour market rigidities but the directors differed on whether or not this should be a condition of the stand-by loan. Altogether seven Executive Directors representing sixty-eight countries refused to support the loan and nine called for a postponement. However Executive Directors representing the US, Canada and Western Europe backed the loan. This latter group vote added up to 51,9pc of the IMF total and the loan was approved.

Evidence to the effect that South Africa received preferential treatment from the IMF in this instance also came from other sources. The objections raised by these latter sources (omitted here are those already raised by the IMF Executive Directors and noted above) include:

1. that 60pc of the package was a loan under the CFF, which normally carries much easier terms of conditionality. This division would normally have to be made after an analysis of the precise nature of the balance of payments problem. But as Professor Richard Eckaus of the Massachusetts Institute of Technology notes the question was not addressed, 'it was simply ignored by the IMF in its consideration of the financial assistance'.⁷⁷

2. that the Fund at the time had pressure on its resources from, and in general favoured, two types of borrowers: on the one hand lower-income countries (judged in terms of per capita income) and on the other, countries whose borrowing requirements were much larger than South Africa's. Compared to these other (1982) borrowers South Africa's debt problems were insignificant and its per capita income was much higher. Therefore South Africa's request at that time was unusual, coming from a country which was of neither type. It therefore ought to have had put up a very convincing case to secure the loan. However, as the evidence suggests South Africa was not forced to make such a strong case.

3. that the abolition of or even promises to abolish certain South Africa policies, for example dual exchange rates and the import surcharge, was not made a condition of loan, when these policies were generally anathema to the economic philosophy of the IMF.

4. that it was not clear that South Africa was a 'developing country' which was necessary for it to qualify for the CFF. This CFF was incidentally the largest such loan to any country in the Fund's history at that time. This issue has been dealt with in Section 2, above.

These are undoubtedly formidable economic objections, applying well-established Fund criteria. Yet the loan was approved.⁷⁸ Though by the end of 1982 South Africa's status and borrowing rights at the IMF remained secure, this 'special relationship' did not survive much longer as we shall see later in this Chapter.

(6) THE IMF AND ECONOMIC POLICY IN SOUTH AFRICA

We have seen that the IMF consistently ignored or overlooked major economic and political policy issues in granting loans to the

apartheid state in 1975, 1976, 1977 and again in 1982. IMF loans to most other developing and middle-income countries in this period were usually made conditional on the borrowing country's intent to eliminate such policies with which the IMF was not in agreement. This does not imply, however, that the IMF had no influence on the nature and direction of economic policy in South Africa. For despite South Africa's importance within the world capitalist system it is not exempt from the influence, guidance and even discipline of the IMF, for this ability to operate above specific national interests and inter-capitalist rivalry is central to the IMF's function and role in this system. The way in which the IMF performs or attempts to perform, this role varies from country to country, according to the changing objective conditions within the world economy. In South Africa's case, as for most other countries, the IMF's influence (at the most generalized level) operates through two channels.

First, that South Africa's membership of the IMF and its high degree of participation in and interaction within the world capitalist system caused it to drift in the direction of the central policies and trends adopted by the dominant member countries of the IMF. Secondly, the IMF, despite its reluctance until 1983 to adopt a formal position on the relationship between apartheid and the South African economy, did at different times and in varying degrees attempt to nudge and prod the South African authorities in certain economic policy directions. Some aspects of South African economic policy were discussed at the Executive Board meetings at the time of South African loan applications especially in 1982. (These issues which have been noted earlier in Section 3 will be dealt in more detail shortly.) After South Africa's mid-1970 loans, the IMF has sent an annual mission of its staffers to monitor this country's economic performance. The IMF mission meets with South Africa's top monetary and Treasury officials among others, and it is on such occasions too that South Africa's economic policy comes up for discussion and evaluation. In addition other formal and informal channels of communication exist, such as

through South Africa's representative at the IMF and at the annual IMF-World Bank meeting.

Let us now briefly examine the IMF's influence on South African economic policy in terms of both these channels of influence, noting the extent of accord, as well as the major concerns and problem areas identified by the IMF in South Africa's economic policy over the period 1970-1985. We begin with the first of these channels. The discussion will be structured into three time periods, c1971-1976, 1977-1979, and 1980 and after. US international economic policy and strategy in the years 1971-1976 was characterised by an aggressive attempt to restore US hegemony in international economic relations. The onus of adjustment was placed on Europe and Japan, which were expected to adopt restrictive economic policy to cut their growth rates so as to bring their external balances into equilibrium.⁷⁹ In the US and the FRG, especially, tough monetary and fiscal policies were adopted to combat inflation. The IMF was central to US international economic policy and US Treasury Secretary William Simon (1973-1976) moved quickly to reassert US authority on this international economic institution and to give it new direction and purpose, though not always with great success.⁸⁰

The shift in emphasis towards more restrictive economic policy by the US and the IMF was welcomed by some factions in the South African monetary and financial hierarchy. South Africa, at the time, was itself emerging from a period of heavy spending in the early 1970s, which left in its wake rising inflation, unemployment and severe balance of payments problems. In attempting to deal with these problems (by now fairly generalized in the capitalist economies) South Africa took the lead of the US and the IMF in adopting much tighter restraint on monetary and fiscal policies. Such policies were seen as crucial in turning around the mid-1970s balance of payments deficits. Senior Deputy-Governor of the SARB at the time, Gerhard de Kock, reported after the 1976 IMF meeting, not without some satisfaction that he

detected in the speeches this year by leaders such as Mr Witteveen, the managing director of the IMF and Mr William Simon, the American treasury secretary, a new found emphasis on fighting inflation, on financial discipline and on the curbing of domestic demand through tough fiscal and monetary policies...For the more developed primary producing countries the category into which South Africa falls...we will be looking for export-led recoveries.⁸¹

Restrictive policies to reduce domestic demand and the preference for outward-looking trade policies implicit here are clear evidence of a shift towards accepting more anti-interventionist positions in tackling the problem of national economies in the post-Bretton Woods era. These policies were designed to roll back the post-war welfare capitalist consensus, upon which basis the post-war Fordist regime of accumulation had rested. The onset of crisis in the industrialised countries led the US and UK in particular to attack the basis of this consensus as part of a new approach to the resolution of the crisis. Though in general South Africa moved in step with the US and UK in this regard, by 1975/6, there still remained at least one area of fundamental disagreement between South Africa and the most of the international economic community, and that was over the emerging trend towards institutionalising and legitimizing the system of floating exchange rates.⁸² At the 1975 IMF annual meeting Horwood strongly opposed floating exchange rates, arguing that the system

poses serious problems, particularly, but not exclusively for the less industrialised countries with underdeveloped exchange markets...I believe that we should plan now for the return to some system of stable exchange rates, adjustable only in the case of changes in basic economic conditions...I am convinced that it would be a retrograde step to legitimize generalised floating as a permanent feature of the international monetary system.⁸³

The real fear, we would argue, which underpinned Horwood's opposition to floating exchange rates, was the potential danger of price instability which a floating exchange rate system might pose for South Africa's gold export earnings. Despite the potential

windfall of a higher gold price which floating exchange rates might bring, it was the danger of an erratic gold price which was more feared. Neither, given looming IMF gold auctions, was there any guarantee that the gold price was headed upwards at all. Combined with the effects of the imminent US Treasury and IMF gold auctions, the adoption of floating rates, it was feared, may have introduced a potentially damaging volatility and instability into the price behaviour of South Africa's primary export commodity. The stabilizing and counter-cyclical role of gold to the South African economy would be seriously affected, especially at a time when South Africa's balance of payments was running large deficits. By the late 1970s, after the publication of the interim de Kock commission recommendations, the official stance of South Africa's monetary and financial authorities favoured the freeing of the exchange rate, the abolition of the dual exchange rate etc. Though some officials, including de Kock, appear to have been champions of market-oriented policies in the 1970s, it is clear that not until the late 1970s was there more overt support among the major policy-makers for market-oriented policies in this area of South African economic policy.

In other areas it would appear that there was greater accord between South Africa, the IMF and the new policies of the major industrialised countries. Thus for example, in response to an attack upon South African economic authorities by the Financial Mail in 1976, in which the Mail accused South Africa of profligacy, of failing to itself apply adequate restraint and of letting the 'IMF gnomes' take over South Africa's credit policy, Finance Minister Horwood replied that 'the targets set out in the letter of intent ⁸⁴ in respect of domestic credit expansion and bank credit to the government sector are in line with official policy and were in fact suggested by the South African authorities and accepted without question by the IMF'.⁸⁵ He added that the Fund had after a thorough investigation 'expressed its confidence in the fiscal and monetary policies and objectives of the South African government', and that the 1975 and 1976 IMF missions to South Africa submitted

reports which were positive and constructive and which substantially vindicated the policies South Africa had adopted. While the Financial Mail was probably correct in its assessment of the South African situation as it had stood in the immediate past, (in the 'years of profligacy') what it apparently had not yet recognised was that South Africa had indeed just shifted to a much tougher economic policy in an attempt to come to grips with its inflation, unemployment and balance of payments problems. If this shift was suggested by the IMF, as was probably the case, the South African authorities probably needed little persuasion. The Apartheid state was far from being straitjacketed by the 'IMF gnomes'.

In contrast to Nixon's international economic strategy, the Carter administration attempted to reduce the cost of adjustment shouldered by the Europeans and Japanese and engaged them in 'concerted action to prop up the world economy.'⁸⁶ Parboni has argued that the 'Carter years stand out as the only instance when the United States tried with serious conviction to solve the problems of the American economy in a cooperative spirit.'⁸⁷ There was in this period a brief revival world-wide of Keynesian demand management policies. Witness for example Carter's commitment to increased US funding of multi-lateral international agencies such as the IMF and World Bank and the Brandt Commission proposals to eliminate purchasing power bottlenecks in developing countries.

The policies of the Carter Administration and the appointment of Robert McNamara at the World Bank thus did appear to herald a 'softer' approach to developing countries. Though ironically Carter adopted a publicly tougher stance towards South Africa, this was not apparent, as we have seen, in the US's attitude to South Africa at the IMF. The highly accomodative attitude towards South Africa and its economic policies, even where these violated IMF philosophy, appeared not to be affected by the changes of directions in US international economy policy. Through these years (1977-1979) South Africa stuck to its tight economic policies and

Horwood proudly announced this fact at IMF annual meetings. Escalating political problems, uncertainty about the gold price and the need to restore and retain a healthier balance of payments, forced the continuance of these restrictive domestic policies, whatever grander designs were being debated elsewhere.

South Africa's major problem in 1977/78 was to counter the growing threats of international isolation which followed the Soweto uprising. The IMF was at this time very sensitive to South Africa's growing political (and economic) estrangement from the rest of the western industrial world, and of the impact this was having on the country's creditworthiness. The 1978 IMF staff analysis of the South African economy recommended that South Africa unpeg the Rand from the dollar and put its currency in a managed float both for exchange stability reasons and also as a way to 'depoliticize' the currency from outside pressure and the 'disturbing' outflows of capital from this tinderbox region'.⁸⁸ This was to prove an important signal to international (and especially US) banks which at the time were coming under intense pressure to disinvest from South Africa.

As Euromoney noted at the time, 'a signal from the IMF that [South Africa's] problem is recognised and can be solved can go a long way to stiffen the resolve of the banking community...'⁸⁹

The IMF staff reported further that 'they and the South African officials agreed that there would be no expansionary policies for the present in the South African economy - wage, price and money growth restraints would be kept on as a matter of course'.⁹⁰ The only note of disquiet which apparently emerged in an otherwise conflict-free 1978 IMF mission, was over rumours that part of the illegal flow of funds out of the country after Soweto was 'being accomplished with the connivance of some highly placed members of the government itself'.⁹¹ The IMF raised with South African officials the matter of Dr Robert Smit's murder. Smit, a former South African representative to the IMF, it was widely rumoured,

had uncovered a major currency evacuation scheme involving South African cabinet officials and 'had been silenced'.⁹² South African officials were understandably far from pleased about this line of inquiry.

Although the appointment of James Baker as Treasury Secretary in the (northern) summer of 1985 marked a small change towards more interventionist ideas in US international economic policy, the first term of the Reagan administration saw a return to a more aggressive stance in dealing with the problems of the world economy. While US policy and strategy appeared to favour, or was wary of the growing power of Europe and Japan, it precipitated economic collapse among many developing countries. These policies were soon to find their way into IMF policy. One immediate consequence of the tougher line at the IMF, was a tightening up on the terms and conditions of IMF loans to borrowing countries. This attitude was reflected in US Treasury Secretary Donald Regan's comment on India's \$5,5m IMF loan request that 'we [the US] will be asking a lot of questions when this loan comes before the IMF board next month'.⁹³

However, one year later when a South African loan request of nearly SDR1 billion came before the IMF, the US, despite this hard-line approach and despite certain economic policies still in place in South Africa (the dual exchange rate system for example) raised precious few questions. This is confirmed by the evidence of liberal Democrat Congressman Julian Dixon to the US Congress banking sub-committee to the effect that 'the US did little to question the loan or determine how apartheid contributes to the economic problems which beset South Africa and what adjustments could be made'.⁹⁴

South Africa continued, with some exceptions, to pursue policies largely in step with the IMF. In 1982, the Financial Mail⁹⁵ reported that the South African government had undertaken several measures to bring it even more closely in line with the Fund's

strict financial orthodoxy, and mentioned as examples, the decision to let the rand depreciate against the dollar; the increase in the rate of interest and the curbing of money supply growth. Where it appeared to violate the Funds orthodoxy, for example, in maintaining dual exchange rates, high public sector spending and in providing huge subsidies to white farmers, it received only a mild rebuke, a slap on the wrist from the Fund.

IMF support for and loan assistance to South Africa was not made conditional on the abolition of these policies. However, despite the high degree of accord between South African financial officials and the IMF over the broad directions of South African economic policy, this is not to suggest that deviations from IMF orthodoxy did not form the subject of some degree of disagreement and controversy. Thus, for example, the view was expressed at the 1982 IMF Board meeting that some of South Africa's economic policies impeded free enterprise and free trade. Although these appeared to be policies which had their basis in the racial form of South African society and state, such criticisms were rarely raised in such explicit and direct terms. Often they would be couched in IMF language such as 'rigidities', or 'distortions', or 'imperfections' in this or that market. Until 1983 when the IMF staff prepared a document formally linking apartheid to the South African economy, the following issues or aspects of South African economic policy were raised by the IMF, or its Executive Directors or staff, or by other financial commentators sympathetic to the IMF view of the world.

The first of these relate to government expenditure. The IMF in its confidential April 1977 study of South Africa noted that 'defence expenditure has been a major cause of the rapid increase in total current expenditure (which in turn led to a) record budget deficit of 6,8pc of gross national product in 1975'.⁹⁶ In 1982 at the IMF Executive Board meeting, Michael Casey, representing Ireland, Canada and the Caribbean countries argued that the South African authorities should be 'encouraged in their attempts to

focus expenditure restraint on such areas as defence and perhaps subsidies'.⁹⁷ The Financial Times in an editorial urged the IMF to take a close look at the large subsidies which South Africa gave to white farmers in the form of cheap money through the Land Bank and of artificial prices of inputs like fertiliser. 'This is another example', the editorial continued, 'of inflated public spending for political reasons, for the farmers who benefit are overwhelmingly Afrikaaner (sic) supporters of the ruling National Party'.⁹⁸ However, the South African position was defended by Allan Whittome, the European director to the Fund, who argued that the cut in public spending from 27pc of GDP in the mid-1970s to 23pc in the early 1980s was 'an achievement equalled by few other member countries'.⁹⁹

A second area of concern which the IMF occasionally 'frowned upon'¹⁰⁰ was that of the dual exchange rate system, first introduced after Sharpeville in 1960. The Financial Times commented that 'for political reasons the South African government persists with an exchange rate regime which distorts its international economic relations'.¹⁰¹ The IMF never made the adoption of a unitary system a condition of its 1976 or 1982 loans but appeared happy to see it go in February 1983. For as the Financial Times observed the issue of the dual exchange rate

is one taken seriously by IMF directors ... While these directors tended to limit themselves to welcoming South Africa's commitment to end the practice...Mr Jaywardena (Executive Director) representing Sri Lanka, India and Bangladesh...argued that South Africa's recent policies had been inadequate and had not been conducive to orderly adjustment of the economy.¹⁰²

In the area of exchange rate policy also, the 1982 IMF mission to South Africa had apparently urged South Africa to liberalize the forward market for the Rand,¹⁰³ a recommendation which was gradually acceded to by the South African Reserve Bank. Thus writing in 1985 Gidlow, (although critical of some of the monetary authorities actions in the area of forward exchange rate policy) noted that in

recent years a more sophisticated market in forward exchange facilities has emerged in South Africa in line with modification in the policy of the Reserve Bank which have furnished facilities on forward exchange account which are more market-orientated.¹⁰⁴

Such a policy was, however, also a recommendation of the de Kock Commission and the IMF's view's must be seen as another attempt to nudging South Africa's monetary authorities in the direction of more free market, or market-oriented policies in this area.

A third area related to monetary policy. In response to the inflationary pressure in 1981/2, South Africa tightened monetary policy, cutting the M2 measure of money supply to an annual rate of 2pc in the 4 months to July 1982. In addition the government increased taxes three times by October 1982. Despite these measures however, the IMF mission which visited South Africa in August 1982 suggested even tougher actions, proposing an increase in sales tax, which the government partially agreed to, and suggesting monetary supply growth targets for the future to reduce the existing high growth rates of money supply.¹⁰⁵ At the 1982 IMF Executive Board meeting which considered South Africa's loan request many Executive Directors, though not those representing the US and Canada, were worried at the apparent relaxation of restraint shown by the decline in interest rates just before the meeting, and also by the decision of the SARB to lower the reserve requirements for commercial banks. However, these deviations from the IMF's strict demand management orthodoxy were obviously not considered serious enough even to form the basis of IMF conditionality. The 1982 loan request, as we have seen, was acceded to.

The IMF apparently took a strong line at the 1982 Executive Board meeting, against South Africa's import surcharge policy 'making its termination by the end of 1983 a condition of the loan'.¹⁰⁶ South African authorities argued that the surcharge 'should not be seen as an effective and lasting protection against foreign competition' and that it 'was designed purely to produce revenue'.¹⁰⁷ The Fund normally views such import surcharges as a

trade protectionist measure that should be removed. However, South Africa, in compliance with the IMF condition, did reduce the import surcharge by 2,5pc in the February 1983 Part Appropriation Bill and abolished it altogether at the end of that year.¹⁰⁸

It was in the field of labour policy, however, that South Africa came in for its 'greatest criticism' over the last 15-20 years, with IMF Executive Directors, financial journals and finally even the IMF staff arguing that the Fund should insist on radical action to remove 'artificial barriers' to employment and to improve training and job mobility for the black majority. The Economist for example criticized South African laws and economic policy that 'condemned so many useful South Africans to useless idleness in the Kaffirstans'.¹⁰⁹ IMF Executive Director for France M, Bruno de Maude called on South Africa to give much higher priority to programmes to relieve the 'shortages of skilled labour (in an economy) with an unemployment rate of 7,3 pc among unskilled workers'.¹¹⁰ In his evidence to the US Congress banking sub-committee in 1983, Bradford also raised the issue of the so-called labour constraint problem, as being an impediment 'to the smooth functioning of the market and [the] efficient allocation of economic resources within South Africa'.¹¹¹

It was this aspect of South African economic policy which came in for the greatest criticism when the IMF staff in 1983 produced the first formal analysis of its understanding of the relationship between apartheid and South Africa's economic problems. The staff analysis argued that 'shortages of skilled labour constitute a medium-term constraint on potential growth that is unlikely to be eased without substantial changes in policy'.¹¹² The shortage of skilled labour, the staff found, derived from 'long-standing labour market policies and practices that constitute impediments to mobility in the labour market and the optimal use of labour resources'.¹¹³ Apartheid restrictions, the report went on 'added to inflationary pressures in labour shortage areas and unemployment in labour surplus areas'.¹¹⁴ The migrant labour system was

criticized for militating against 'continuity of employment and consequently against on-the-job training'. The report concluded that 'in order to avoid serious economic imbalances in the economy over the medium term, it is essential that the impediments and restrictions governing the labour market be eased and that the allocation of government expenditure to certain areas of education and manpower training, that to date have been inadequately funded, be stepped up sharply'.¹¹⁵

It is therefore no coincidence that much of this attitude was soon to find its way into (official) South African government thinking and policy changes in the area of South African labour and urbanization policy. Though surely not the only voice urging changes in this direction the 'objective, technically-oriented' IMF view must have had substantial influence in some quarters of the state's economic agencies, bolstering the arguments of the free market or market-oriented faction at the SARB, Treasury and planning and policy departments considerably.

(7) THE BREAK IN SOUTH AFRICA'S RELATIONS WITH THE IMF

In 1983, as international pressure against the apartheid state began to mount, and in the wake of the outcry at the United Nations and elsewhere against the 1982 IMF loan, but significantly before the onset of the generalised political crisis within South Africa, this country's longstanding and favourable relationship with the IMF was suddenly restricted. At the June 20 1983 meeting of the IMF its staff presented a report critical of apartheid on economic grounds, the first in the IMF's history. Given the well-known strength of US influence on IMF staffers, there is little doubt that the report had the support of the US Treasury and may even have been instigated at the Treasury's request. The report, found that apartheid impeded the optimal utilisation of South Africa's resources, especially, as we have just noted, by creating labour supply bottlenecks. It went on to note that apartheid had a short-

term effect on the balance of payment but that its effects were felt in the medium and long-term. The Center for International Policy, a Washington-based research unit, which specialises in the analysis of the political implications of international economic relations, commenting on this IMF report noted that South Africa could no longer count on automatic access to some of the IMF's conditional facilities unless it dismantled apartheid. Until then South Africa would have available only the low conditionality facilities it used in November 1982. However, this would still have given Pretoria \$1,5 billion.

After much debate at the US Senate and House, and its respective banking committees and sub-committees, an anti-apartheid amendment to a Bill authorising an increase in the US quota to the IMF was agreed upon. The US law now requires that the US oppose South African loans unless the Secretary of the Treasury certified in person before the banking committees that the loan conditions would reduce the distortions caused by apartheid. On request of either the House or Senate Banking Committee, the Treasury would have to demonstrate: (1) the loan would bring about a substantial reduction of the pass laws ('restrictions on the geographical mobility of labor'); and (2) South Africa could not raise the money elsewhere. Furthermore, the administration would have to give a three-week public notice of another IMF loan to South Africa.¹¹⁶

The amendment left the US with enough 'wobble room'. US support of IMF loans to South Africa was not absolutely prevented. It was only restricted, and restricted significantly in ways that ideally suit advocates of moderate reform both in South Africa and abroad. Neither the US nor the IMF have since 1983 reassessed their positions on IMF loans to South Africa, even though it could be argued that the US conditions have been largely met since the ending of some 'colour-bar' restrictions on the employment of certain grades of black miners, changes in South Africa's influx control legislation and the closure in mid-1985 of its previous easy access to private international bank credit. Why is this?

IMF support for South Africa, we would argue, rested upon the strategic and economic contribution and role which South Africa had over decades come to play within southern Africa and in the world capitalist economy. As long as the apartheid state retained its capacity to perform this historically important role, the IMF sloughed off criticisms of its support for what came increasingly to be seen as a morally reprehensible political regime. This capacity in turn rested on the maintenance of political stability in South Africa and on an economic performance sufficiently robust to ensure the profitability of foreign investment and to minimise the probability of revolutionary change in South and southern Africa arising out of the ashes of a collapsing economic order. Until 1983 such support for South Africa at the IMF was guaranteed by the powerful voting strength and structural and historically-derived influence of the US and UK at the IMF's Executive Board. In this period the relationship between South Africa and the powerful western industrialised countries which dominate decision-making at the IMF was clearly mutually beneficial. South Africa received financial support and the US and West European countries benefited in terms of their economic and strategic investments and political interests in the region.

The role of any particular country within the world economic system is not immutable, however, as we have argued earlier in our critique of dependency theory, and the growing fear of political upheaval and economic degeneration in South Africa, which set in since the mid-1970s, but which escalated after the early 1980s, forced a reassessment by western industrialised countries of their policy of continued unconditional support for the apartheid state. It became clear to these countries, and significantly this occurred before the widespread and internationally publicised political upheavals of 1984-86, that some pressure should be brought to bear on South Africa to move in the direction of deracialising some aspects of its social and political system, so as to head off the prospects of more radical change. By taking a moderate stance

against apartheid, these countries hoped (and still hope) to win over segments of the dominated classes to a solution to the South African crisis that would ensure the continuation of their interests in the sub-continent.

It was recognised that one channel through which effective pressure could be brought to bear on South Africa was through the IMF. As we have seen IMF and US support for financial assistance to South Africa after 1983, was restricted and made conditional upon the country embarking upon political reform. The 'reform' recommended did not turn out to be particularly onerous. After all it was not the intention to precipitate events which might lead to overly rapid and radical change. By 1986 after the abolition of legally enforced controls over the influx of Africans to the cities and other changes, these 'reforms' were largely met. However, growing anti-apartheid protest action in the US and Europe which arose out of and accompanied the sudden domestic political upheavals of 1984-86 acted to block any immediate revision of the 1983 decision in response to these reforms.

Though the international community differs about how to bring about social and political change in South Africa, about how much change is necessary or about the necessity for of 'black majority rule' as the solution to the political crisis, they appear to agree that not enough has been done to begin a process of 'genuine negotiations' or even to dismantle the more objectionable features of apartheid, such as the Population Registration Act and the Group Areas Act for example, as a means of facilitating the 'orderly and evolutionary' change they favour. These factors have prevented any move to reverse the 1983 decision to restrict IMF loans to South Africa. The US Congress for one, given domestic considerations, would find it difficult to instruct the US Executive Director at the Fund to support South African loan applications as long as these pressures continue.

Despite the IMF staff critique of the economic distortions created by apartheid, we would argue that the decision to restrict IMF support to South Africa in 1983, was primarily based on revised western, especially US, geopolitical considerations at the time. After all the 'economic distortions' created by apartheid were much greater in the 1950s, 1960s and 1970s, and this did not appear to have damaged South Africa's relationship with the IMF. Neither can the explanation for the IMF decision be found in the onset of economic crisis in South Africa. The IMF is designed to assist countries at times of economic crisis. Unlike private international banks, it therefore cannot in terms of one of the very foundations for its establishment, in the first instance 'withdraw' its support for a country at the onset of economic crisis, except in cases where IMF advise or conditionality is persistently ignored. However, the IMF did not suspend its support to South Africa because the country failed to meet the terms of IMF conditionality. This is illustrated by the following example. Although, it was not made a condition of the 1982 loan, South Africa abolished exchange controls over non-residents in 1983, an aspect of economic policy the IMF had earlier 'frowned upon'. In general, following the publication of the interim de Kock commission report on monetary and exchange rate policy and the Wiehahn commission report on labour policy in the late 1970s, the ideological thrust of South African economic policy was gradually being moved away from controls (including racially-based controls on labour organisation and occupational mobility) and towards the market-oriented direction so heavily favoured by the IMF. So whilst, as we shall see in Chapters 5 and 6, the decision by private international banks to cut off new loans to South Africa was based on a combination of directly economic and political reasons, the IMF, being a non-profit, public international financial institution, came to its decision on the South African question, mainly on the basis of pressure exerted on it by the US in support of the latter's changed strategies and geopolitical objectives in southern Africa. The IMF restriction formed one of the few largely unnoticed 'sticks' in the otherwise accommodative constructive engagement

policy of the Reagan administration, although clearly the pressure for this change via the US Congress.¹¹⁷

(8) CONCLUSION

We have argued in this chapter that until the abrupt change in 1983, the relationship between South Africa and the IMF was cordial and beneficial both to the major industrialised countries which dominate the IMF and to South Africa. This greater symmetry in the relationship between western industrialised countries and the IMF, on the one hand, and South Africa on the other in this period appears to conflict somewhat with the propositions of dependency theory. Although South Africa may have technically qualified for IMF loans both in 1976 and 1982, the Apartheid state additionally used its contradictory classification and status at the IMF with sufficient skill in order to more easily qualify for large amounts of IMF financial assistance. Its 1976 loans from the IMF for instance were exceeded only by those to Britain and Mexico. The IMF's 'bounty' contrasts sharply with its response to the, equally serious external economic difficulties of other developing countries. This difference is placed into sharper perspective when seen in relation to the point made in Chapter 2, that aggregate IMF balance of payments lending fell far short of the pressing demands of an unsettled and volatile post-1973 international economy.

Though South Africa appeared to keep in step with the broad trends in economic policy pursued by its major trading partners, it retained some policies which would normally be regarded as anathema to the IMF. Yet these differences appeared not to affect the nature of the 'special' relationship. The IMF and South Africa differed over the issue of gold auctions, both in terms of the merits and the timing of such a scheme. IMF gold auctions in the mid-1970s were a US-led exercise aimed at addressing the problem of the flagging dollar at a time when the long post-war domination of the US appeared to be coming to an end. The South African authorities

narrowly criticised the scheme as an attempt to demonetise gold as an international monetary asset. These gold auctions together with the official adoption of floating exchange rates in 1976 and the economic uncertainties created by the political upheavals in South Africa in 1976, introduced serious instability into the price of South Africa's major export earner and economic stabilizer, ie gold. Gelb has shown that the fluctuations in the gold price were an important avenue through which the growing crisis in the international economy were transmitted into the South African economy.¹¹⁸

By the early 1980s the increasing potential for political turmoil in South Africa, created by the maintenance of the central features of apartheid policies in the face of escalating internal resistance and a growing outcry by popular, student, church and even governments in the US and Europe, forced a reassessment by the leading industrialised countries, most notably the US, of its policies towards South Africa. While maintaining its conciliatory policy of 'constructive engagement' towards South Africa, the US finally bowed to pressure, which came mainly through Congress and in the wake of an earlier and critical IMF staff analysis, to restrict IMF financial assistance to the apartheid state.¹¹⁹ The principal motivation behind this relatively punitive measure was to hasten the South African government into adopting reforms which were timorous and significant enough to head off the prospects of a sudden, and even more 'destabilising', transition to a radical, populist or even socialist black majority government.

Given its past record, ideological baggage and fear of (far) right-wing electoral successes among other factors, the South African government, however, appeared at the time to be in no hurry to bend to international pressures exerted through the IMF, or to the even more damaging implications of the 1985 decision of the banks to cut off credit lines, an issue which will be discussed in the following chapter.¹²⁰ The change in attitude to South Africa since 1983 has had implications for US, UK and IMF support for South Africa's

southern African policy (in Namibia and Mozambique for example ¹²¹) and there is some evidence of growing western support for alternative southern African initiatives, such as SADCC. South Africa's role as a regional power, exercising economic and political stability here in support of US and West European anti-Soviet strategy, a dominant theme of South Africa's relations with the West since the second World War, has become less important in recent years. The apartheid state's regional policy has in certain respects, such as in its support for Renamo in Mozambique, even become counter-productive to regional stability.

The fact that South Africa has not had recourse to IMF assistance since 1983 and has had to pay off its outstanding debts to the IMF, debts which fell outside the debt standstill, has seriously affected the freedom to manoeuvre of the South African monetary and financial authorities. These restrictions have undoubtedly affected the capacity of the South African economy to regenerate and maintain a robust growth rate, and in this sense they do illustrate the power of this form of international financial pressure. Yet the fact that the apartheid state fully paid its outstanding debt to the IMF is no mean achievement, as its monetary and financial authorities often like to boast.¹²² However, as even (then) Reserve Bank Governor de Kock admitted, the fact that South Africa had met some of these daunting challenges with 'astonishing success', is a 'balance of payments adjustment success story, not a growth success story.' As de Kock pointed out in September 1987, the performance of the economy between 1984 and 1986 was poor to say the least.¹²³ Real economic growth slowed down, imports were compressed by as much as 30pc, unemployment increased, the quarterly rate of inflation increased from 12,8pc in the fourth quarter of 1984 to 26,0pc in the first quarter of 1986, real disposable income per head fell by an average of 5,6pc, and real private consumption fell by an average of 4,2pc in 1985 and 1986.¹²⁴

ENDNOTES

1. Financial Mail, 06.08.76
2. Financial Mail, 06.08.76
3. 06.08.76
4. New York Times, 20.10.82
5. Nedbank Survey, 1983, p15
6. Summary Proceedings of the 1980 IMF's Governors' Meeting pp81/82
7. Summary Proceedings of the 1980 IMF Governors' Meeting, pp81/82
8. Franzen, 1983, piii
9. Nedbank Survey, 1977, p17
10. See World Development Reports; Annual Reports of the Bank for International Settlements; Bradford, 1983.
11. Credit Tranches: The normal way in which countries draw on the resources of the Fund is through access to the tranches or 'slices' of credit. The first of these is called the reserve tranche and amounts to 25pc of the member's quota.
12. Compensatory Financing Facility: This is a special credit facility of the Fund which was set up in 1963 to assist countries who suffer balance of payments losses as a result of short-term declines in the price of their raw material exports.
13. Special Drawing Rights: This is a form of international reserve asset which was established by the IMF in 1969 as a supplement to the dollar as the Fund's official unit of account. Members may use SDR's amongst themselves by mutual agreement for a variety of purposes.
14. Seidman, 1985, p119
15. See for example, Business Day, 09.12.86, feature article by Stanley Uys, p5; Holland, 1988.
16. See for example, Finance Minister Barend du Plessis's Statement on the repayment of Foreign debt; 01.09.85; de Kock, September 1986.
17. Direct evidence of a change in the IMF's position on this issue is not available.
18. Johnson, 1977, p102ff
19. See Chapter 2 of this thesis for more details on this point.

20. Time, 08.11.76
21. 1977, p103
22. Johnson, 1977, p103
23. Innes, 1981, p28
24. Economist, 14.08.76
25. Financial Mail, 13.02.76
26. Johnson, 1977, p107/8
27. Johnson, 1977, p108fn
28. Johnson 1977 deals with the Russian and French issues.
29. Economist, 14.08.76
30. South Africa's response to the downward drift of the gold price was to introduce the new Krugerrand. (Johnson, 1977, p217)
31. Sobel, 1978; Barratt, 1976; Time, 28.06.76
32. Sobel, 1978; Barratt, 1976; Time, 28.06.76
33. Johnson, 1977, p221
34. Quoted in Johnson, 1977, p241
35. Financial Mail, 20.09.76
36. Time, 04.10.76
37. Quoted in Johnson, 1977, p266
38. Rand Daily Mail, 07.10.76
39. Johnson, 1977, p267
40. Johnson, 1977, p268
41. The escalation in the gold price in 1979/80 was also related to other factors, such as the continuing lack of confidence in the dollar, the growing fears about the escalation of Third World debt etc.
42. Economist, 24.07.76
43. Economist, 24.07.76
44. We have noted South Africa's earlier expulsion from the 'Australian Bloc'.

45. See Chapter 5 for details of South Africa's borrowing from the international capital markets. In contrast to its status at the IMF, following Soweto, medium to long-term loans to South Africa fell off for some years and/or their terms were altered.

46. Conditionality: This is the term used to describe the changes in economic policy, which the IMF recommends or insists on as a precondition for balance of payments assistance. The usual changes favour market-oriented policies such as the abolition of subsidies, reduced government expenditure, exchange rate liberalisation and the like.

47. Gisselquist, 1981, p206

48. The Seidmans here are likely to have been confused by South Africa's use of the reserve tranche in 1969/70, which is part of South Africa's foreign reserves, and is not a credit as such.

49. Seidman and Seidman, 1978, p75

50. See Chapter 2 for details.

51. IMF Survey, 15.11.76

52. Johnson, 1977, p110

53. IMF Survey, 16.08.76

54. Center For International Policy, henceforth abbreviated as CIP, 1978, p1

55. CIP, 1978, p1

56. Johnson, 1977, p111

57. CIP, 1978, p2

58. CIP, 1978, p5

59. CIP, 1978, p5

60. CIP, 1978, p3

61. CIP, 1978, p3

62. CIP, 1978, p3

63. Nation, 16.09.78

64. Nation, 16.09.78

65. Gisselquist, 1981, p224

66. Washington Post, 24.12.77

67. Fransen, 1983, pp130/131
68. See for example Financial Mail, 20.09.82, p1235; Financial Mail, 08.10.82, p147.
69. CIP, 1983, p1
70. see for example, Financial Times, 25.01.83
71. Leaked State Department Telegram (not referenced), a copy of which was shown to this writer in March 1986 in Washington DC.
72. See for example United Nations General Assembly: Reports of the Secretary General, 04.10.82 and 29.10.82; UN General Assembly A37/552 1904 of 1982; UN Press Release GA/6695, 21.10.82 and 04.11.82.
73. Economist, 16.10.82; New York Times, 20.10.82
74. Economist, 16.10.82
75. Wall Street Journal, 03.11.82
76. Korner et al, 1986, p72
77. Eckhaus, 1983, p641
78. Not all of the loan was drawn on by South Africa, raising questions as to whether it was all needed in the first instance; with the gold price rising again in 1983 South Africa agreed to an early pay back of the loan.
79. Parboni, 1986, pp6/7
80. See for example Johnson, 1977, p108fn.
81. Rand Daily Mail, 08.10.76
82. Although there appeared to be a growing acceptance of the need to institutionalize floating exchange rates, the IMF was still a year off intitutionalizing such as system.
83. Summary Proceedings of the 1975 IMF Governors' Meeting, pp138/9
84. This letter of intent, which sets out a borrowing country's policy commitment in regard to IMF loans, refers to the 1976 loan.
85. Financial Mail, 20.08.76
86. Parboni, 1986, p6
87. Parboni, 1986, p9
88. Euromoney, June 1978, p169

89. Euromoney, June 1978, p169
90. Euromoney, June 1978, p169
91. Euromoney, June 1978, p169
92. Euromoney, 1978, p169
93. Financial Mail, 25.09.81
94. Dixon, 1983, p638
95. 07.10.82
96. CIP, 1978, p1
97. Financial Times, 07.10.82
98. Financial Times, 07.10.82
99. Financial Times, 25.01.83
100. Financial Mail, 11.02.83
101. Financial Times, 07.10.82
102. 25.01.83
103. Economist. 09.10.82
104. Gidlow, 1985, p226
105. Economist, 09.10.82
106. Financial Mail, 04.02.83
107. Financial Mail, 4 February 1983
108. Rand Daily Mail, 18.02.83
109. Economist, 16.10.82
110. Financial Times, 25.01.83
111. Bradford, 1983, p645
112. New York Times, 17.02.83
113. New York Times, 17.11.83
114. New York Times, 17.11.83
115. New York Times, 17.11.83

116. CIP, 1984, p7

117. In 1986 under further pressure exerted through the US Congress, a slightly stiffer sanctions package was passed in the form of the Comprehensive Anti-Apartheid Act. The Reagan and Bush administrations have since then, resisted all calls for the imposition of tighter sanctions as a means of bringing about the end of apartheid.

118. Gelb, 1987

119. The IMF Staff analysis had to have the approval of the US.

120. This is evident in the now infamous Rubicon Speech of the State President on 15.08.85, after the banks' decision to cut South Africa's credit lines.

121. see for example Grest, 1987, pp358/9

122. See for example, de Kock, September 1986.

123. Dr de Kock, who was Governor of the SARB since 1981, died after a short illness in August 1989. He was succeeded as Governor, by Dr Chris Stals.

124. de Kock, September 1987

CHAPTER 5

PRIVATE INTERNATIONAL BANKS AND THE APARTHEID STATE: 1970-1985

(1) INTRODUCTION

In this chapter we examine first South Africa's relations with private international banks, and in particular trace the changing nature and structure of loans and bonds raised, managed or underwritten by these banks in the international financial markets on behalf of South African borrowers in both the private and state sectors. Secondly, we examine the circumstances, both domestic and international, which led to South Africa's foreign exchange and debt crisis, a crisis precipitated by Chase Manhattan Bank's decision of mid-1985 to call in its outstanding South African credit, and to deny this country its normal roll-over credit facilities as well as most forms of new loans and credit.

Numerous clarifications and qualifications about the precise terms of this discussion need to be made at the outset. The analysis, which covers the period 1970-1985, concentrates almost exclusively on direct lending or foreign capital inflows of the loan variety, ie interest-yielding capital inflows. These loans include short-term Eurocurrency loans, short to medium-term Eurocredits (usually in this period denominated in dollars or Deutsche Marks) and longer-term Eurobonds¹ arranged and managed by private international (transnational) banks. It is not within the scope of this thesis to specifically analyse direct foreign investment to South Africa, ie profit yielding capital flows; this has in any event been covered in other studies.² Financial flows from public international financial institutions, such as the IMF have been examined in detail in Chapter 4. International banks with branches in South Africa, such as Barclays and Standard, have been important sources of loan funds to the South African government, parastatals and private sector.³ However, as these banks have considerable South African shareholdings and accept large amounts of South

African deposits, these (internally-generated) loans have for the purposes of this study not been defined as foreign and are therefore excluded from the present analysis.

Comprehensive, comparable and reliable data on South Africa's relations with private international banks are not easy to come by. The international banking world is notoriously conservative and tight-lipped, banking transactions most often confidential and reporting and disclosure requirements vary from country to country. South Africa's ventures into the international financial market are often conducted in conditions of secrecy in order to protect institutions lending to this country. Thus for example in 1975, an investors' newsletter commented, '[i]n conditions of strict secrecy South Africa is raising substantial amounts of short-term ...money'⁴, and in 1982 the Financial Mail quoted a senior government official as saying that '[t]here is no need for bankers to be embarrassed'⁵ by the public disclosure of their interests in South Africa. The element of secrecy intensified further in the years leading up to the 1985 debt crisis and became almost total after that date.

Whereas during the period 1946-1973 the main sources of foreign capital investment in South Africa were in the form of direct investment (risk capital, which was profit-yielding), non-direct investment (dividend-yielding, share purchases and short-term credits), there has since then, and until 1985, been an increasing reliance on direct lending or loan capital, including syndicated loans and credits on the Euromarket and public bond issues on the Eurobond market. The private international bank lending portion of international credit for example represented just 15pc of total foreign investment in 1974, but an estimated 32pc in 1976. These figures exclude bond issues managed or guaranteed by these banks. These loans and bonds have been made or managed or underwritten by some of the largest international banks, including National Westminster, Barclays PLC, Midlands, Hill-Samuel and Hambros in the United Kingdom; Deutsche, Dresdner and Commerzbank in West

Germany; Union Bank of Switzerland; and increasingly, though unevenly, between 1975 and 1985, Citibank and Chase Manhattan in the US. These and other banks extended large quantities of credit to South Africa since the early 1970s, especially between 1972-1976 and again after 1981. Loans from most of these banks were abruptly halted in mid-1985 for reasons which will be examined later on in this discussion. Table 10 shows medium and long-term bank credits to South African borrowers, and the heavy borrowings in the early to mid-1970s and again after 1981 is apparent.

TABLE 10

MEDIUM AND LONG-TERM FOREIGN BANK CREDITS TO SOUTH AFRICAN
BORROWERS: 1970-1982 (\$ Millions)

| | |
|------|--------|
| 1970 | 60,0 |
| 1971 | 229,0 |
| 1972 | 171,5 |
| 1973 | 498,2 |
| 1974 | 791,3 |
| 1975 | 562,5 |
| 1976 | 1088,4 |
| 1977 | 0,0 |
| 1978 | 307,5 |
| 1979 | 79,2 |
| 1980 | 385,0 |
| 1981 | 271,5 |
| 1982 | 2100,0 |

SOURCE: Kaplan, 1983, p169

It is to a more detailed and nuanced picture of these developments in South Africa's relations with international bankers in the period 1970-1985 that we now turn. South Africa's borrowings from the international banks and its bond issues in this time are discussed within the limits of four periods, between each of which economic and political conditions differed vastly. The main issues and trends which emerge in each of these periods are summarised

first. The years, 1970-1973, were indisputably the last years of the long boom phase in the South African economy. The economy remained relatively strong and in a climate of political stability, South African bond issues in particular, were highly successful. The period 1974-78 represent the mid-1970 crisis years in the South African political economy. The balance of payments ran into severe deficits in the early part of this period, for reasons which will be set out more fully later, and only severely restrictive economic policy turned around this situation in 1977. Despite these economic problems South Africa borrowers, especially the state and the parastatals, continued for some time to receive massive amounts of international credit from the banks and through bond issues, although there were increased costs to take account of South African heavy exposure and weak balance of payments. The flow of international credit (loans and bonds) to the state and parastatals, especially in the period 1972-1976, but also in 1980-1982, in support of the state's strategic and infrastructural development programme, represents one of the most dominant features of South Africa's international financial relations in the post-1970 years, as the following discussion will demonstrate. However, the political climate deteriorated markedly after 1976, under the pressure of student and worker protest, and this more than any other factor, made international holders of South African bonds so 'jittery' ⁶ that the Eurobond market was effectively closed to South African borrowers for some years thereafter. International banks loans to South Africa slowed down and the terms of such loans tightened after the Soweto uprising, although at the time this form of international credit appeared less politically sensitive than the raising of bonds, and was in any event, still cheaper than new bond issuance.⁷

As political stability was gradually reestablished in South Africa and the balance of payments deficits eliminated through restrictive economic policy and in the wake of global developments such as the flood of petrodollars in search of recycling and deteriorating investment opportunities both in the advanced industrialised

countries and in most of the early NICs, the flow of private international bank loans to South Africa was resumed. Under pressure from a growing international campaign for disengagement from South Africa, some major banks, attempted to justify their loans on the grounds that they would be used for the social advancement of urban black communities. By 1979-1981, the flow of loans had turned into a flood, although the maturity period (structure) of loans shortened sharply. And there is evidence of South African bond issuance in Europe again. Furthermore the slowdown of risk and equity finance after 1973, placed upward pressure on local interest rates. This together with SARB support in the area of forward exchange cover, encouraged local borrowers to look abroad for funds. As a consequence and in contrast to the mid-1970s borrowings, which were significantly more medium to long-term and used for the state's strategic and infrastructural investments, most of the post-1979 loans were taken by the private sector and were heavily trade-related.

By 1982, fears of an international debt crisis, the rapid fall in the gold price, mounting economic difficulties, and gathering political tensions in the wake of the widespread schools boycotts of 1980 and 1981, were beginning to further adversely affect the terms, if not by that stage the availability, of bank loans to the apartheid state. With the balance of payments (basic balance) moving into deficit again between 1981 and 1983, the economy deeply in crisis, and resistance to the apartheid state by unions and political organisations rising to unprecedented levels, raising the possibility of a black majority government, private international banks called in their loans and cut-off new credit to South Africa in mid-1985. Their decision, was, we shall argue, based on a combination of changed economic and political perceptions, which severely downgraded their assessment of the risk of further or continued exposure to the apartheid state.

The relationship between international bankers, the international financial market and South Africa which will now be discussed in

detail, may be characterised by examining the lenders (which banks, from what countries, the extent of their South African exposure); the South African borrowers (by sector, and uses of international finance and their impact upon accumulation); the terms of the loans (maturity, costs) and the types of credits (Eurocredits, Eurobonds etc). These and other factors will be examined against general economic and political developments in South Africa, the state of the world economy and in particular of the international financial market and the changing perceptions of South Africa's place within the world capitalist system.

(2) THE EARLY YEARS: 1970-1973

The 1970s opened dramatically for South Africa's international financial market dealings, when in October 1970 Pretoria made its first attempt since 1959 to raise a loan on the London market by offering bonds worth \$5 million. The issue was oversubscribed in advance so that when the market officially opened it closed after ten minutes, sold out!⁸ The government-backed bond was (like most others in this period) guaranteed by some of the major private international banks operating out of England and Europe. So heavy was the borrowing in the early 1970s that already by June 1971 there were signs that in the view of European lenders, South Africa was reaching its borrowing peak in Europe.⁹ However, the international currency crisis leading up to Nixon's August 1971 decision to suspend the dollar's convertability into gold, so effectively ending the Bretton Woods fixed exchange rate system, also adversely affected South Africa's borrowings on the international financial market. In addition, American congressional hearings on US investment in South Africa in May 1971 turned the spotlight on companies, banks and governments doing business with the apartheid state. Charles Hightower's evidence to the effect that 'American investment in South Africa has provided the most advanced techniques for an automated police state,'¹⁰ (whether

entirely accurate or not) highlighted the political and moral aspects of financially supporting the Apartheid state.

These developments appear to have affected both ESKOM's ¹¹ and ISCOR's Deutsche mark bond issues in early to mid-1971, both of which were not fully subscribed to, and which soon after official trading in them began were changing hands at 1,5pc below the issue price.¹² Similarly, the South African government's privately placed 60m guilder issue brought in only 48m guilder. Nevertheless these appear to have been temporary and minor hitches. The hugely successful Johannesburg loan of DM80m managed by Berliner Handelsgesellschaft-Frankfurter Bank (BHF) and underwritten by powerful banking consortia, as well as the Republic's oversubscribed DM100m bond issues on the West German foreign bond market, both in the second half of 1971, are evidence of the continued and strong support for South Africa in the international financial market.¹³ However, there appeared to be some concern in South African business circles in 1971 that foreign loans were not being used productively, raising (as early as this) the question of South Africa's ability to service its international borrowings. For 1970 alone a high 17,7pc of South Africa's export revenue went to service foreign borrowing, compared to 5,7pc in Canada, 5,9pc in New Zealand, 6,1pc in Yugoslavia, 9,9pc in Argentina, 11,1pc in Israel and 17,9pc in Australia.¹⁴

The first two years of the 1970s therefore witnessed a high though sometimes erratic, level of activity in the international financial market, especially by the South African government, growing foreign indebtedness and significant support mainly from the major West German, Swiss and British banks and banking consortia acting as managers and underwriters of South African bond issues. South Africa was clearly more active on the Eurobond market rather than the Eurocredit or loan market, so that private international banks played more of a management and underwriting role in these years, as distinct from a direct lending function. In part this was a reflection of the dominance of the Eurobond market over the

syndicated loan sector at the time. The government itself appeared to be the most visible borrower, private South African borrowers being apparently affected by the government's policy of discouraging all but longer than five year capital loans for housing, exports and strategic industries. ISCOR, ESKOM and other parastatals which were later to become major borrowers were not yet household names in European investment and banking circles. With local capital markets already extended these parastatals were soon to turn forcefully to Europe. Almost all of ISCOR's financing needs for Saldanha and other projects were planned at the time to be funded through foreign loans.

In the first half of 1972 easier conditions in the European markets, greater clarity on the question of the revised international currency situation and an improvement in South Africa's foreign reserves, all contributed to the sentiment that the government, the parastatals and other public sector borrowers would have little difficulty in raising private international loans. Among private sector borrowers foreign loans were made by, among others, Anglo-American on the Eurodollar market (the lead bank being N.M. Rothschild); USCO, a straight bank loan from Kredietbank NV of Belgium; and Shell (SA). The Post Office with three foreign loans; the South African government, with two; the Johannesburg municipality, with two; and ESKOM were the major borrowers outside the private sector. Short and medium-term foreign bank credit continued to be freely on offer to South Africa, but there was some disquiet that the country was overborrowed in the long-term, a factor which, it was feared, might affect the country's credit rating in this important end of the market. New South African foreign borrowings may also have been held back slightly by the uncertainty caused by speculation over the possible devaluation of the rand, a factor that would have affected the rand value of debt repayments.¹⁵ By July and August 1972 concern over the consequences for international exchange rate stability arising out of the weakening dollar seriously affected the confidence of operators in the international financial market and, among other

consequences, forced a four week closure of the West German foreign bond market.¹⁶ This led to the temporary shelving of the South African governments long-term borrowing of DM100m, ESKOM's DM100m, and the Johannesburg municipality's DM80m borrowing.¹⁷

South Africa's international borrowings in 1973 were dominated by the foreign loans of the South African Railways and Harbour (SARH). In April SARH raised a seven year DM100m bank consortia loan managed by West Germany's BHF; in May it successfully floated a DM100m bond issue on the West German capital market managed by Deutsche Bank to finance the Richards Bay scheme; and a \$45m Eurodollar medium-term credit became effective on 4 June 1973. Plans were already being made by SARH for a further R90m to be raised in the form of medium-term credits over the following four years for the Richards Bay project.¹⁸ However it should be pointed out that South Africa's ability to raise foreign loans with a maturity of over seven years (ie long-term loans) appeared to become increasingly difficult by 1973. As we shall see this only began to change again in the early 1980s.

Between 1974-1976 international bank lending to South Africa more than doubled, both in volume and as a percentage of total foreign investment.¹⁹ Direct foreign investment, especially from the US which represented the major part of increases in foreign investment in the early 1970s was thus gradually losing its place and importance to loans and credits from international banks. Given developments at the time in the international financial market, which have already been described, international banks were eager to mobilize the international finance required to meet Pretoria's pressing needs. South Africa's dealings in the international financial market and in particular its relationship with international banks will now be examined for the period which has come to be characterized as the mid-1970s crisis, 1974-1978.

(3) THE MID-1970S: 1974-1978

The transnational banks eagerness to lend funds to South Africa in the mid-70s constituted an integral feature of their response to the re-emerging general crisis of capitalism. Faced with a pervasive economic slowdown, coupled with inflationary price increases that threatened to wipe out profits at interest rates prevailing at home they sought new, more profitable areas in which to invest their mounting accumulations of surplus investable funds.²⁰

By mid-1974 with balance of payments problems emerging and tight conditions prevailing in the local capital market, the South African Reserve Bank's (SARB) decision to allow South African companies to borrow abroad more freely was an early indication that foreign borrowing was going to be both encouraged and necessary and would be a crucial source of funding South Africa's finance needs, for balance of payments, strategic, defence, infrastructural and developmental purposes. We have already noted that the local capital market was well developed in terms of institutional sophistication especially for a country of South Africa's size and development. However despite this there was not sufficient depth in the local market to meet South Africa's finance needs if economic growth rates were to be increased, even maintained, and other objectives too realized at this time when the long post-war boom was coming to an end. The capital shortfall was particularly acute in 1974-76 for the combination of reasons mentioned above, forcing South African borrowers to turn to the international capital market and international banks.

There followed in early 1975, a desperate scramble for foreign bank loans and bonds, particularly by the public corporations resulting in a totally unco-ordinated approach to the international financial market. The major part of the finance needed for projects such as SASOL II, Sishen-Saldanha, ESKOM's Matla, Duvha and Koeberg (nuclear) power stations, the SARH expansion programme and the SABC (for the new television service) had to be raised abroad at about the same time and it was reported at the time that 'in their eagerness to find funds, the corporations are falling over each

other's feet.'²¹. In addition the central government, which borrowed both for itself and on behalf of several other bodies such as the Uranium Enrichment Corporation, some local authorities (notably Johannesburg) and private companies such as Anglo-American, South African Breweries and De Beers were in the queue for foreign loans.²² Already by 1975 South Africa ranked among the top ten borrowers in the international financial market and it was 'planning' (or was forced into) an even deeper involvement in the years thereafter.

The South African government often pledged security for repayment of such loans at rates of interest well above those available most elsewhere, and it backed its pledge with some of the world's most valuable minerals.²³ It was not surprising therefore that international banks were queueing up to lend to South Africa. Even US banks began to participate more actively in loans to South Africa by early 1975, although at the time some banks asked for their identities to be kept secret.²⁴ In November 1975 Citibank discontinued its personal cheque and savings account operations in South Africa in order to concentrate more on its international financing and corporate banking activities. Citibank, commented the Financial Mail was 'particularly well placed to assist in raising foreign loan capital for South Africa'.²⁵ Citicorp, Citibank's parent holding company, had then recently established a worldwide merchant banking group, whose London subsidiary Citibank International Bank Ltd (CIBL) had been one of the largest syndicators of Eurodollar medium-term loans since it was established in late 1972. CIBL had already raised foreign loans for both the public and private sector in South Africa. In addition to playing a leading role in foreign fund raising for South Africa's public corporations, it had managed a \$37m five-year loan for Johannesburg Consolidated Investments early in 1975 and was a co-manager with Barclays in the \$60m AECI loan of the same year.

Another indication that US banks were playing a more active role in providing loans and financial assistance to South Africa, was

to be found in Chase Manhattan's decision to reestablish an official representative office in Johannesburg in 1975. The world's (then) third largest banking group explained that their aim was 'to assist multi-national companies in obtaining the best possible local and off-shore financing,...provide customers with comprehensive intelligence on South Africa and counsel overseas customers on South African legislation'.²⁶ Although the involvement of US banks in lending to South Africa declined noticeably for a few years after 1976, there is little doubt, despite some attempt at secrecy, that US banks came to play an important role in loan financing for South African clients and multinational companies operating in South Africa in the years 1974-76.

But US banks were not the only (or even the biggest) ones assisting South Africa by lending to it or managing its bond issues on the international finance market. In all thirty-six banking groups participated in mobilising Eurocurrency credits for South Africa between 1972-1976.²⁷ In addition to the US banks, most of the major institutions in the international financial market from Britain, West Germany, France, Switzerland and Luxembourg, were the most active lenders or bond managers. Table 11 shows those banks which provided international credits to South Africa between 1972-76, as well as the number of commitments in which they participated. The involvement of West German and British banks is particularly prominent. With the growth of the syndicated loan market, international banks often organised consortia for particular loans, with one of the larger private banks acting as lead banks (or lead manager of a bond issue) and they brought in several other banks, not necessarily from the same country as participants. South Africa's 1976 international borrowing, for example, got off the ground with a massive \$200m medium-term syndicated loan for ESKOM, for which the lead managers were the heavyweights of the international financial community: Citibank, Chase Manhattan, Manufacturers Hanover Trust and Barclays Bank International Ltd amongst others.²⁸

TABLE 11
BANKS WHICH PROVIDED INTERNATIONAL CREDITS FOR SOUTH AFRICA:
1972-1976

| COUNTRY | INSTITUTION | NO OF COMMITMENTS |
|-------------|--------------------------------------|-------------------|
| FRGermany | Westdeutsche Landerbank Girozentrale | 10 |
| | Commerzbank AG | 13 |
| | Dresdner Bank AG | 9 |
| | Deutsche Bank | 11 |
| | Berlmar Hendels und Frankfurter Bank | 6 |
| England | White Weld Securities | 10 |
| | Hill Samuel | 9 |
| | Strauss Turnbull and Co | 7 |
| | Delta Trade Co Ltd | 5 |
| | Barclays Bank International Ltd | 5 |
| France | Hambros Bank Ltd | 4 |
| | Credit Commerciale de France | 15 |
| | Credit Lyonnais | 9 |
| | Societe Generale (Belgium or France) | 5 |
| Italy | Paribas | 4 |
| | Banco Commerciale Italiana | 4 |
| Belgium | Banco de Roma | 4 |
| | Kredeitbank NV | 8 |
| Netherlands | Bondtrade | 7 |
| | Algemene Bank Nederland NV | 7 |
| Luxembourg | Kredeitban Luxembourgaise SA | 12 |
| Switzerland | Union Bank of Switzerland | 10 |
| USA | Citibank | 10 |
| | Manufacturers Hanover | 8 |
| | Kidder Peabody | 8 |
| | Chase Manhattan | 3 |

SOURCE: Seidman and Makgetla, 1980, p220

But all this is not to suggest that South Africa did not also experience problems in its international financial market dealings in this period. Both the decline in the health of the balance of payments from 1974 and political uncertainties arising out of the pre and post-independence struggles in Angola and Mozambique and South Africa's raid into Angola appeared to affect the terms, if

not the quantity of loans and bonds in 1975 and early 1976. This resulted both in a 5-7 year limit on syndicated loans and South Africa's almost total absence from the international bond market in the first three months of 1976. 'Jitters among private bond investors have practically closed the Eurobond market to South African borrowers [and] the prices of South African issues have been dropping like stones', commented the Economist.²⁹ Thus even though South Africa borrowed more in the first three months of 1976 (excluding its IMF loan) than the whole of 1975³⁰ these were medium rather than long-term syndicated loans in the main placed with a small group of twenty to fifty banks in most cases, all of whom were sophisticated lenders, and who in their dealings with South Africa would already have discounted the political risk. In the case of a public bond issue investors or potential investors are generally more widespread, less sophisticated and more likely to be affected by political upheavals. Thus despite the boom on the international bond market in the period, reflected for example in Spain's easy access to, and good performance in, the market (and Spain at the time was not without its own share of political problems) South African bonds was being dumped on the secondary bond market. New issues were not undertaken for some time thereafter. At the height of the Angolan adventure the government decided to test the international bond market, its last foray for a few years. Despite an attractive yield to maturity of 10,28pc, the \$25m issue, as the Financial Mail pointed out 'failed dismally'.³¹ The reason for the flop according to London bond dealers was the concern among potential investors over the implications of South Africa's attack on Angola.

The Soweto student revolt in June 1976 had the effect of shortening loan maturities. And with non-bank investors subscribing less and less to South African bonds and notes, private international banks began to play a greater role as lenders rather than, as in the early 1970s, as managers and underwriters of bonds to South Africa. But these banks were demanding and getting extra compensation. A leading London merchant banker noted that whilst the general margin

over the London interbank offer rate (LIBOR) was coming down, on South African loans it was going up.³² The spread (or percent interest over LIBOR) was then just after Soweto running at 1,75pc over LIBOR for South Africa, compared to New Zealand, a much less attractive prospect, which was paying only 1,25pc. Front-end management fees for South African credits were also on the up and maturities were shortening.³³ The situation was summed up by Dr Hans Mast, Credit Suisse's chief manager, who commenting on the effect of the Soweto uprising noted that, '[i]n the Euromarket loan terms are immediately adjusted to changed political conditions, the balance of payments and the volume of outstanding loans. By all three criteria South Africa's position is not as strong as it used to be.'³⁴

In 1976 immediately after Soweto matters changed somewhat. It seemed that direct bank lending was not easy to arrange. Apart from a loan of R25m raised in Germany and an export credit of R110m arranged by Hill Samuel, the only significant loan apparently raised in 1976, and this after considerable difficulty, was one of \$110m from a consortium of US banks.³⁵ However it is possible that South Africa's international borrowings may have been larger than the publicized figures and information reveal, because banks were reluctant to publicize their loans to South Africa as a result of the delicate political situation in southern Africa around 1975/6.³⁶ US banks especially were raising finance for South Africa in this period, as we have already noted, without too much publicity. There were for example rumours in London in September 1976 that South Africa having been turned down by the Shah of Iran in a bid to borrow a massive \$500m approached US banks for the money.³⁷ There may easily have been other loans, even of this magnitude, which received no publicity. Euromoney reported that 'South African borrowings in the syndicated Eurocredit market have not been widely publicized in 1976...the leading banks have maintained a low profile'.³⁸

Anti-apartheid campaigns against bank lending to South Africa may have contributed to tightening the conditions and later even reducing the volume of private international bank loans to South Africa. At a US Senate sub-committee hearing Citibank executive vice-president George Votja was closely questioned about Citibank's South African connection. In further evidence before the subcommittee Tim Smith of the Interfaith Centre of Corporate Responsibility in New York added that US bank loans subsidize South Africa's military capability and are thus a direct resourcing of machinery for the oppression of the Black majority.³⁹ This kind of publicity, at a time of changed political conditions in South Africa, does appear to have altered banks' assessment of their South African risk and this negatively affected South Africa's international financial market dealings. Banks appeared less willing to extend medium to long-term credit. In 1977 for example South Africa's medium and long-term international bank credits had dropped to zero (see Table 10). However, the possibility that banks may have responded by tightening up on the publicity of their South African loans, cannot be entirely ruled out. By the end of 1976 there was great concern that the loan squeeze expected in 1977 was going to threaten some vital South African infrastructural projects. Thus New York's Business Week magazine suggested in November 1976 that 'several big projects launched in the euphoria of the (early) 1970s may have to be mothballed'⁴⁰, and named SASOL II as a possible candidate.

Thus before turning to South Africa's international financial market operations and its relationship with international banks after 1976, operations which occurred under different economic and political circumstances, let us look at the type of uses to which private international credit was put to in the period up to 1976, more especially 1974-76; their importance to capital accumulation and economic and political stability in South Africa.

The gradual relative decline in direct foreign investment after 1976 (ie plant, factories in which there was foreign control) does

indicate that at least some investors were beginning to scale down their previous optimistic longer-term view of South Africa. At the same time South Africa's dependence on international loan finance and on the behaviour of participants in the highly volatile international financial market undoubtedly increased. However, for South African borrowers and especially for the state and public corporations private international credit has distinct advantages over both direct foreign investment and public international credit, such as IMF loans, in the sense that they were (and are) usually 'untied'. They 'do not imply any ownership or control or any political leverage...'.⁴¹ IMF loans usually come with conditions attached, although this was not always true of South Africa's IMF borrowings, and direct foreign investment occurs at the discretion of foreign investors motivated by their own views on the profitability of different sectors or industries in the economy. In contrast private international bank loans and funds raised from bond issues in the international capital market can be determined (in terms of their amounts, timing etc.) and utilized according to the economic and political priorities and judgements of borrowers themselves, provided their credit rating holds of course. It is worth repeating Lipietz's comment that

in the case of bank loans, the bank prevalidates the borrowers future income. More specifically, when the loan is advanced to finance the import of capital goods, the bank prevalidates a given strategy for industrialisation, but it is the firm or State which choses the strategy.⁴²

In South Africa's case, as we shall see, it was the apartheid state's chosen policy of strategic and infrastructural development and industrialisation, much of which necessitated large amounts of capital good imports, which international bank credit in the mid-1970s bankrolled. However, it may also be argued that the selective, 'uncontrolled' industrialization consequent upon large-scale direct foreign investment in the 1960s and early 1970s compelled or at least necessitated some of the large amounts of complementary infrastructural investments undertaken by the South African state and parastatals in the 1970s. For South Africa this

change in the nature of its foreign capital inflows in favour of bank loans, bonds and credit, as opposed to direct foreign investment, intensified a contradictory and ambiguous condition of 'dependence on, yet growing autonomy from' the diktats of the international financial community.

In the mid-1970s government and public corporation loans appeared to be relatively more important than private sector borrowings, although it should be pointed out that the government parastatal, the Industrial Development Corporation (IDC), obtained some international bank credit for private South African business⁴³ and that transnational banks seldom publicized information about their loans to private South African borrowers. South African government and parastatal borrowing in the international financial market in the early to mid-1970s was used primarily to fund large scale capital projects, paying for imported capital goods and equipment, and to meet the cost of building up its energy and defence capabilities, to upgrade and expand its transportation and telecommunications network, as well as finally to finance its 1974-76 balance of payments deficit. By 1976 private banks had begun to scale down their general purpose loans to South Africa, forcing the South African government and parastatals to rely on 'project finance', either in the form of export credits or syndicated loans tied to specific projects.⁴⁴

The Standard Bank Investment Corporation reported in 1976 that

[d]uring the past five years the authorities invested large sums principally in administration, post and telegraphs, railways and harbours and strategic research. Fixed investment by the public corporations was concentrated on mining and manufacturing, with emphasis on projects to exploit and beneficiate natural resources. Substantial sums were spent on oil exploration, phosphate development, colliery expansion and mining of industrial minerals and metals. In the manufacturing field semi-public sector projects were intended primarily to strengthen South Africa's strategic position by concentrating on oil technology, steel production, aluminium and uranium reserves, petro refining and developing electricity, gas and water utilities.⁴⁵

International credit, as a US Congress report on South Africa pointed out, was critical to this investment by the parastatals in the period up to early 1976. Table 12 makes this apparent. Even in 1976, 60pc of ESKOM's total financing or credit requirements were filled by foreign borrowing.⁴⁶ The fact that 40pc of this finance was obtained from South African sources is, however, significant for a country of South Africa's size, and this fact should not be allowed to escape the notice of those who posit a crude 'dependency' argument in relation to South Africa's links with the world economy. Table 13 illustrates that the volume of government borrowing (from private international sources) increased markedly between 1972-1976. At a time when South Africa was becoming increasingly isolated politically and with the possibility of economic isolation as well (disinvestment and sanctions threats) - the apartheid state was able to use 'untied' private international credit for its political-economic policy of strategic and infrastructural investment'. As Clarke comments, the funding of the investment programmes of the public corporations by the international banks has been 'an act of major political as well as economic significance, supporting South Africa's attempts to prepare a more solid foundation on which to resist domestic and foreign opposition to apartheid.'⁴⁷

But the South African government had, especially in the mid-1970s, to allay fears of political instability in South and southern Africa, so as to keep this kind of foreign credit flowing in. Thus for example, Finance Minister Horwood, who was often called upon to play this role, made the following points at an international seminar in Dusseldorf in November 1976:

1. that the tensions between South Africa and Angola had eased considerably,
2. that normal economic relations continue to be maintained with Mozambique,

TABLE 12

PUBLICIZED PRIVATE SOURCE INTERNATIONAL CREDITS TO SOUTH AFRICAN
PUBLIC BORROWERS: 1974-1976 (\$ Millions)

| | |
|--|-------|
| Republic of South Africa (RSA Bonds) | 615 |
| Electricity Supply Commission (ESKOM) | 691 |
| Iron and Steel Corporation (ISCOR) | 731 |
| South African Railways and Harbours (SARH) | 625 |
| Other | 416 |
| Total (Government Entities) | 3078* |
| Private Sector (South Africa) | 444* |
| Total Recorded | 3521* |

NOTE: Figures rounded to nearest million.

SOURCE: US Corporate Interests in South Africa, 1978, p53

TABLE 13

PUBLICIZED PRIVATE SOURCE INTERNATIONAL CREDITS TO SOUTH AFRICAN
PUBLIC SECTOR BORROWERS: 1972-1976 (\$ Millions)

| | TOTAL | GOVERNMENT ENTITIES |
|------|-------|---------------------|
| 1972 | - | 277 |
| 1973 | - | 477 |
| 1974 | 819 | 668 |
| 1975 | 944 | 803 |
| 1976 | 1758 | 1613 |

SOURCE: US Corporate Interests in South Africa, 1978, p53

3. that 'South West Africa' (Namibia) was well on the way to independence (!),
4. that South Africa's economic and military strength made it 'improbable that violent change in other parts of Africa could be looked at as a prelude to revolutionary change here'.⁴⁸

A significant portion of private international credit in 1974-76 went towards reducing South Africa's heavy dependence on other countries (notably Iran) for its energy requirements, described by private banking sources as the 'fundamentally weak link in the economy'.⁴⁹ SASOL was at the time reaching its second stage (SASOL II) and it was expected that export credits would finance some 20pc of the total finance needed. Other energy projects included a \$1,3 billion uranium enrichment plant and the \$1,1 billion Koeberg nuclear power station. A portion of the financing of these projects were expected to be provided by a syndicate of French Banks.⁵⁰

Foreign private credit in the mid-1970s was also linked to SARH's Richards Bay project, to upgrade port and containerization facilities, and to the Saldanha Project (to produce semi-finished steel) among other plans. These and other projects related to South African harbour and transport links were critical to overcome export bottlenecks. And expanding such infrastructure and hence exports and foreign exchange earnings were crucial to South Africa's need to maintain its international creditworthiness. It had after all to reassure its international creditors that it was both stable (politically) and able to meet its foreign debt obligations.

Direct evidence of private international credit being used for South Africa's defence requirements are understandably hard to come by, and this arises largely out of the very nature of such credit and is one of its central features and advantages. But the massive increase in the defence budget from \$688m in 1973 to \$1,9 billion in 1977, as well as the various new schemes launched by the government to raise money for defence (such as the issue of defence

bonds in 1976) are clear evidence of the desperate need for funds for defence purposes. It was estimated that two-thirds of the increased defence spending (1976 rand increase) was made abroad, thus indicating the extent of foreign exchange and possible international credit needed.⁵¹ The US Congress report calculated that oil and defence import costs between 1973 and 1976 appear to have increased 500pc.⁵²

The availability of private international credit arising out of developments on the international financial market and in the nature of and balance of forces within the world capitalist economy, was in short crucial 'to finance the rising costs of (South Africa's) continued oil imports, its expanding military purchases and its strategic economic development programs',⁵³ all of which was designed to increase the self-sufficiency of the Apartheid state. South Africa's ability to meet this objective would have been seriously (though perhaps, given its internal resources and resilience, not fatally) impaired without the support it received from private international banks and investors in the European capital market and from the IMF as well. Without such financial support the nature, course and development prospects of its economy and perhaps even the process of change in its racially based society, may have assumed a very different character.

Given all this the question arises as to the extent or degree to which international credit in these years came as well to be utilized by, and added to, the productive sectors of the economy, as opposed to consumption or replacement of existing capital stock. In other words did such private international credit contribute directly to economic growth and capital accumulation? In order to answer these questions one would need to know the precise total amount of international credit extended to South Africa, the identity of each borrower, the utilization of or purpose of each credit, and then trace its complex multiplier path through the economy, at the very least. (A sophisticated econometric model would also be essential.) However, even the US Congressional

Research team, which produced the report on US Corporate Interests in South Africa (1978) with all the resources at their disposal were not able to come up with precise data on these issues. Seeking answers to these same questions, and using the data in Table 14, they were able to point out:

1. that an estimated \$6,36b in new international bank lending was extended to South Africa in the period 1974-1976 (Section A),
2. that the net inflow of long-term capital to public corporations and local authorities in the period 1974-1976 was substantially greater than that to the private sector (Section B),
3. that the public sector overtook the private sector as the major investor in the economy, accounting for 47pc of Gross Domestic Fixed Investment (GDFI) in 1971-73 and 51pc in 1974-76 (Section C),
4. that estimated new international bank lending increased in relation to capital goods imports (CGI) from 31pc in 1974 to 48pc in 1975 to 62pc in 1976 and in relation to GDFI from 13pc in 1974 to 19pc in 1975 to 30pc in 1976. Further CGI increased from an average 38pc of GDFI in 1971-73 to an average 43pc for the years 1974-76 (Section D),
5. that net capital inflow as a percentage of GDFI almost doubled between 1971-73 and 1974-76 in each of the major sectors, central government and banking, public corporations and local authorities and the private sector (Section E),
6. that long-term capital inflows of public corporations and local authorities as a percentage of their GDFI increased from 9,6pc in 1971-73 to 15,9pc in 1974-76 (67pc increase) as compared to figures of 7,7pc, 8,6pc (a 14pc increase) respectively for the private sector, (Section F).

Together these figures and logical deduction, suggest:

1. that the South African economy was becoming more capital intensive and clearly more reliant on international credit.
2. that long-term international capital markets had become more important to the public rather than the private sector, as the former became the majority annual investor in the economy, and

TABLE 14

| INTERNATIONAL BANK LENDING AND INVESTMENT: 1971-1976 (\$ Billions) | SOUTH AFRICAN DOMESTIC | |
|---|------------------------|---------|
| | 1971-73 | 1974-76 |
| A. Total bank lending outstanding at year end | na | na |
| Estimated new bank lending | na | 6365 |
| Estimated lending to SA govt and public corp | na | 3078 |
| B. Net Capital Inflow* | 1659 | 4362 |
| Central govt and banking sector* | 292 | 1001 |
| Public corp and local authorities* | 861 | 2692 |
| Private sector* | 545 | 2032 |
| C. Gross Domestic Fixed Investment (GDFI)* | 17892 | 29571 |
| Public corp and local authorities | 7994 | 15081 |
| Private business enterprises | 9374 | 14601 |
| Public corp and local authorities as % of GDFI | 47 | 51 |
| Private business enterprises as % of GDFI | 53 | 49 |
| D. Capital Goods Imports (CGI) | 6738 | 12695 |
| Estimated new bank lending as % of CGI (1974= 31; 1975= 48; 1976=62) | na | 48 |
| CGI as % of GDFI | 38 | 43 |
| E. Net capital inflow to central govt and banking as % of GDFI | 2 | 3,4 |
| Net capital inflow to public corp and local authorities as % of GDFI | 4,8 | 9 |
| Net capital inflow to private sector as % of DFI | 4 | 7 |
| F. Long-term net capital inflow of public corp and local authorities as % of their GDFI | 9,6 | 15,9 |
| Long-term net capital inflow of private business enterprises as % of their GDFI | 7,7 | 8,6 |

Note: * Total short- and long-term, net.

* Figures for Sections B and C do not add up to the total.

SOURCE: US Corporate Interests in South Africa, 1978

3. that (as the report concludes) '[t]he close relationship between international credit and public and private sector infrastructure and development projects is shown most clearly thorough the importation of capital goods. Implicit is the critically important transfer of technology, which contributes to the modernisation of South Africa's plant and its ability to compete in world markets as well as contributing to increased productivity'.⁵⁴

Suckling ⁵⁵ has demonstrated that 60pc of the increase in South Africa's GDP between 1957-1972 originated from exogenous technical change and technology. Thus by contributing to the critical transfer of such technical change and technology via capital goods imports, international bank credit could be said to have been an important factor in South Africa's economic growth in this period, up to at least the early to mid-1970s, as it grew in relation to other forms of foreign capital inflows.

The analysis now shifts to the years 1977/78. By 1977 two factors combined to change the pattern of private international bank loans to South Africa. Firstly, the Soweto uprising of mid-1976 led some international bankers, especially in the US to question the political stability of the regime. The Soweto unrest also resulted in an intensification of the anti-apartheid campaign overseas in which international banks such as Citibank, Chase Manhattan in the US and Barclays International in the UK came under heavy criticism for providing loans and other financial assistance to the apartheid state. Secondly, South Africa's balance of payments (badly affected in the period 1974-76 by the rising price of oil, arms and other imports and by the falling price of its commodity exports arising out of the world-wide recession) began to improve following the adoption domestically of stringent monetary and fiscal policies.

The South African authorities in 1977, going by the 1977-78 budget, made adjustments for a sharply reduced access to medium and long-term private international bank credit and Eurobond capital and accepted that this placed or would place a financial squeeze on the

economy in the year ahead. Given the continuing need for infrastructural development, increased defence expenditure, expenditure on its 'homelands' programme etc., the government's 1977/78 budget was designed to reduce the deficit on current account, reduce the rate of inflation and try to meet its financing needs through an enforced channelling of domestic saving into the public sector (via the mechanism of prescribed investments) to take the place of the expected decline in international bank lending of a medium to long-term variety.

In this assessment they were correct. As Table 10 indicates South Africa received no medium to long-term international bank credit in 1977. Its credit rating declined and the interest rate it paid for its short-term loans increased. In 1978 both Chase Manhattan and Citibank agreed not to lend additional funds to the South African government directly, though they would continue to lend to the private sector. First National Bank of Chicago and Continental Illinois had by 1978 already cut off all credit to the South African government and parastatals, the former bank adding that it would not roll over any of its existing credits to South Africa when they fell due.⁵⁶ In England, Midland Bank 'modified' its lending policy to South Africa in a way that affected mainly direct loans to the South African government and parastatals.⁵⁷ Nigeria ordered all 'public sector agencies' in that country to withdraw their accounts from Barclays Bank Nigeria, because of Barclays South Africa's decision to purchase South African defence bonds, and Barclays International Ltd came under heavy pressure at its April 1978 annual general meeting to reduce its South African holding. For South Africa, the most damaging news was the decision of the European-American Banking Corporation (EAB) of October 1977, which took the form of an assurance to the World Council of Churches that only funds for the financing of trade transactions would in future be lent to South Africa. As the Financial Mail pointed out 'EAB was the lead manager for many for the biggest foreign loans floated by South African borrowers, including the SARH, ISCOR and ESKOM in the boom years 1972-1974'.⁵⁸ As a

consortium bank, the funds from the EAB came ultimately from varying combinations of its seven shareholders: Deutsche Bank; Societe Generale, Banca Commerciale Italiane, Midland Bank and Kredit Anstalt Bankverein (Austria), Amsterdam-Rotterdam Bank and Societe Generale de Banque. EAB justified its decision on both political grounds and its (then) already heavy exposure to South Africa.

This is not to imply that South Africa did not receive any loans from private international banks in the years 1977 and 1978. As Peel has observed, the disinclination of the international financial markets to advance more long-term money to state bodies in South Africa has been expressed 'not so much by withholding funds as by limiting the terms of any loans to no more than three years and insisting on a clear premium'.⁵⁹ The South African government was an important borrower of short-term funds to ease pressure on the balance of payments, which itself began to improve in 1977. Trade-related international bank credit continued to be available to South African exporters and importers, and there were unconfirmed reports of some financing of specific industrial development projects. There were strong indications in mid-1977 that Citibank was arranging a \$60m loan for the development of Black Mountain Mineral Development's lead, zinc and copper desposit near Aggeneys in the North West Cape.⁶⁰ The loan believed to have had a 7-10 year maturity was to be guaranteed by Phelps Dodge of New York which it was claimed had a 49pc stake in its operations. The SARH obtained a DM35m loan through a private placement,⁶¹ that was lead-managed by Berliner Handels Und Frankfurter Bank (BHF), with five other banks (not all German) participating. The cost of the loan was higher than that available to other borrowers at the time to compensate for what the Financial Mail called 'the current unpopularity of South African borrowers' ⁶² The SARH loan of July 1977 was reported to have been the first publicized foreign bond issue by a South African borrower since the unsuccessful RSA bond issue of February 1976. There was also an unconfirmed report to the effect that the City of Johannesburg had obtained a DM50m four year

loan which was handled by BHF, Richard Davis and Co., Bayerische Hypotheken und Wechsel Bank and Dean Witter Reynolds. Thus despite South Africa's political instability the country was not entirely abandoned by private international bankers and other international financiers and institutions. As the West German finance and trade journal Handelsblatt declared in June 1978 '[i]n banks and stock market circles, the talk is of great faith in the future of the country [South Africa] which cannot be simply dropped overnight by the Western world for political and strategic reasons'.⁶³

By the end of 1978 there were clear signs that South Africa's temporary international financing drought was over and that circumstances were changing in the country's favour. There were at the time strong suggestions that the South African government which had (as far as can be ascertained) not raised or been able to raise loans on the international financial market since Citibank lead-managed a \$110m credit in 1976, was negotiating a \$150m syndicated credit with one Swiss (Union Bank of Switzerland) and two West German banks (Dresdner and Deutsche).⁶⁴ It appeared that there was still some concern, that the market was still a 'little bit worried'⁶⁵ about the Namibian situation, how PW Botha would perform as the new Prime Minister and the effects on the South African economy of the rapidly 'deteriorating' political situation in Iran. In December 1978 the Urban Foundation's secured a foreign loan of R28,7m which marked a further milestone in South Africa's return to the international financial market. The loan according to the Financial Mail was 'earmarked for urban Black housing, came from three giant US banks which had in the [then] recent past kept an ultra-low profile on their South African business'.⁶⁶ They were Chase Manhattan, Bank of America and Morgan Guaranty.

There were several reasons for the improvement in South Africa's standing in the international financial markets from late 1978. There was firstly greater confidence in South Africa's political future following the state's 'success' at suppressing popular struggles. Soweto and Angola were fast fading from being a factor

in the calculation of international bankers. Botha's reform initiatives particularly in labour relations and the granting of ninety-nine year housing leases to Blacks also contributed to the increased confidence of international bankers in South Africa's political stability. Secondly, South Africa's balance of payments had improved substantially, following the adoption of tighter monetary and fiscal policies and the increase (ableit at times erratic movement) in the price of gold, which rose from \$125 an ounce in 1976 to \$193 in 1978 and \$307 in 1979 on average.⁶⁷ The country's ability to successfully service its foreign debt was therefore enhanced. Thirdly, in 1979 the second major oil price increase (OPEC II) in the decade brought more funds into an already liquid international financial market and South African borrowers were being eagerly sought by international bankers keen to recycle these funds, an important function for the stability of the international economic system, at a time when lending to many industrialised countries was becoming less attractive due to the slowdown in economic growth there. Fourthly, increasing concern about the ability of some developing countries to repay the vast quantities of international bank loans unloaded upon them between 1973 and 1978 after OPEC I, was making South Africa an increasingly attractive proposition to international bankers especially given the turn-around in the country's economic and political situation.

It is to an examination of South Africa's international financial market dealing between 1979 and 1985 that we now turn. The analysis will be split into two periods viz. 1979-1981 and 1982-1985 for reasons that will become apparent.

(4) THE YEARS 1979-1981

From late 1981 and clearly from 1982, South African borrowers in both the public and notably the private sector, went on what may best be described as an orgy of borrowing from private

international banks directly and from the international capital market via bond issues. This massive upsurge in foreign borrowing culminated in the dramatic developments of August 1985. This frenzied period of South African international financial market activity, which will be examined next, was however, preceded by a term of consolidation in which South Africa rebuilt its credit rating after the uncertainties following the Soweto uprising and downturn in the economy. The global and domestic background to this period (1979-1981) has already been noted in Chapters 2 and 3. These were in the main the liquidity of the international financial market, the relative stability of the South African political landscape (broken only by the 1980 schools boycott), the favourable balance of payment position (until 1981) and most notably the remarkable surge in the price of gold which peaked at over \$800 an ounce in 1980. This last factor was in itself related to the seemingly intractable world inflation problem, the dollar's own woes, foreign exchange instability, sluggish growth and the recession in the main capitalist countries, the 1979 oil crisis (OPEC II) and growing concern about the debt servicing capacity of some developing countries especially in Latin America, and Eastern Europe as well.

The boom in the price of gold reduced South Africa's need to borrow funds on the international financial market. Major projects such as Saldanha, Richards Bay, the extensions to ISCOR, the improvements to harbours in Durban and Cape Town, the containerization of ports, the television service etc., were either complete or nearing completion. ESKOM (for Koeberg) and Sasol (for phase II) remained the major potential parastatal borrowers. South Africa also repaid some of its earlier debt in 1979/80 taking advantage of the healthier balance of payments position. However, changes in South Africa's foreign exchange regulations following the publication of interim report of the de Kock Commission of Inquiry into monetary policy made foreign borrowing more attractive. All South African and multinational companies became

eligible for forward cover on foreign loans for renewable periods of one year.⁶⁸ Foreign trade finance also became cheaper.⁶⁹

Despite its reduced need for international credit, especially in comparison with its 1974-76 requirements, South Africa continued to borrow from abroad. In September 1980 for example the country received a \$250m seven-year syndicated Eurocredit, which was led by Dresdner Bank, Barclays (UK), Credit Commercial and Union Bank of Switzerland and Citibank. The maturity of seven years was notable. For the previous 3-4 years South Africa's economic and political situation had tended to limit loan horizons to between three and five year periods. The loan carried a spread 0,875pc above LIBOR for the first two years and 1pc above for the last five years. Private international banks set Eurocurrency interest rates at LIBOR, the London interbank offer rate plus a spread ie an additional percentage determined by the bank's evaluation of the risks involved in making loans to a particular country. Seidman calculated that in 1981 'oil-rich Nigeria paid a spread of 3/4 to 7/8 above LIBOR. Newly independent Zimbabwe paid 1 1/8 to 1 3/8 above LIBOR. South Africa in contrast, despite its apartheid policies and the growing liberation struggle paid (on average) a comparatively low 5/8 to 3/4 above LIBOR'.⁷⁰ South Africa's borrowing terms were thus most competitive and the government made numerous forays into the international financial market in this period. ESKOM too was a major borrower. In September 1980 it raised a \$50m, five-year loan on favourable terms, at an even lower spread than the (above mentioned) RSA loan. The loan was lead-managed by a 'European bank' and the Financial Mail speculated that the National Bank of Dallas also participated despite the build-up of anti-apartheid pressure in the USA.⁷¹

Although some of these South African loans from the international financial market were used to repay earlier debt and to build up reserves it would appear that 'prestige' rather than 'money' was the motive behind much of South Africa's international financial market activity in this period. 'South Africa's reputation on the

international market was tarnished by the 1976 Soweto race riots, which [some] foreign bankers saw as a sign of instability that might create repayment problems', commented Newsweek, '...now the government is striving to re-establish its credibility as a stable borrower'.⁷² Finance Minister Horwood was quoted as saying that 'we are technically not in need of large amounts of foreign loans',⁷³ and Secretary of Finance de Loor informed the Financial Mail that South Africa wished to keep up relationships with the banks, "...though loan offers have been rolling in 'there are a few we can't refuse.'" ⁷⁴

The South African government and private international banks continued in their attempts to weaken anti-apartheid criticism by claiming to use loan funds for projects that would 'benefit blacks'. The September 1980 RSA loan of \$250m from a syndicate of twenty-five banks included a provision that the 'funds will be used for projects to benefit blacks.'⁷⁵ Citibank, which had stopped lending to the South African government in the previous four years cited the new provision as a justification for its participation. 'Our loan is for projects that will benefit all the people of South Africa', stated Citibank spokesperson Robert Brannon. 'Specific monies are to be used for housing, hospitals, and educational facilities. Those terms were requisite for signing the agreement'.⁷⁶ Private international bank loans to the Urban Foundation were allegedly to help South African blacks to acquire ninety-nine year leases, not outright ownership, on homes in their segregated townships. 'American loans of some R30m enabled black borrowers to pay interest rates reduced from 10,5pc to 8,75 pc'.⁷⁷ The loans covered a five-year period and the banks hoped that rising black incomes would 'permit borrowers to pay the going [South African] interest rate without undue hardship.'⁷⁸ The number of such leasehold properties 'purchased' and applied for remained insignificant, yet the banks claimed that their loans 'now contributed directly to social advance'.⁷⁹ Government income, including loans, generally go into a general revenue account before allocation to specific projects and it would be difficult to

determine whether or not they were used to the 'benefit of blacks'. The foreign funds, critics said, could simply free \$250m for Pretoria to spend on something else. At best, say some analysts, the new provisions might guarantee that certain black programs will not be curtailed if the government decides to reduce spending'.⁸⁰

The period under review saw South Africa's 'homelands' or 'independent' states raising foreign loans. In 1978 Ciskei raised a R5m foreign loan which was guaranteed by the South African government. In January 1979 Bophuthatswana raised a loan for a similar amount. The lenders were a 'consortium of Swiss-based banks, the funds being intended for general infrastructural purposes'.⁸¹ Namibia (South West Africa) obtained its first foreign loan of SwFr9,5m over five years in 1979. The loan was negotiated by a Cape Town finance house, Law Fin Ltd., in association with Crea Fin of Zurich, a wholly owned subsidiary of Rothschild Bank AE of Switzerland. Law Fin had earlier negotiated two international loans totalling SwFr19m for a Transkei housing project. In later years international banks advanced more loans to Bophuthatswana (1982, 1984) and to the Transkei (1984).

By mid-1981 there were already signs of the sharp increase in South Africa's international financial market activity which became apparent, visible and indisputable in 1982. In the second half of 1980 the Financial Mail commented that South Africa was 'comfortably underborrowed'.⁸² Yet in early 1982 the Mail announced that South Africa was 'borrowed to the hilt'.⁸³ The spate of Eurobonds and project-related loans raised abroad by South African public corporations represented merely the 'tip of the iceberg of the country growing...indebtedness'.⁸⁴ Net long-term capital inflows to public corporations and local authorities jumped from R161m in the first six months of 1981 to R202m in the fourth quarter.⁸⁵ Far outweighing these long-term loans and bonds were short-term credits raised through the banking sector, including the SARB. These included short-term loans for balance of payments 'smoothing' facilities, import credits and book-balancing exercises.

International loans raised by the SARB, the majority with maturities of between three and six months had increased from zero at the end of 1980 to over R1,3 billion in January 1982. Inflows to the private sector reached a net of R1 billion during 1981, compared with net repayments of short-term debt of R1,7 billion in 1980.⁸⁶ According to The Banker '[t]he growing demands on the capital markets stem from South Africa's recordbreaking boom of 1979-80 and severe balance of payments strains caused by soaring imports and the drop (after 1980) in gold and other commodity earnings'.⁸⁷

The rapid fall in the gold price from an average \$613 an ounce in 1980, to \$460 in 1981 and \$376 in 1982,⁸⁸ and the deficit in the country's balance of payments in 1981 (basic balance of +R2340m in 1980, and -R3547m in 1981) were two of the major changes which determined the nature and structure of South Africa's international credit in the years after 1981. However, as The Banker observed, 'South Africa is fortunate that its present appetite for foreign loans has coincided with a period of relative stability at home and turmoil in some other countries far more heavily in debt to the banks'.⁸⁹ It was also pointed out at the time that South Africa was on good terms with international bankers. 'It has never defaulted on a foreign loan, nor has it asked for a renegotiation of debt repayments. South Africa's debt servicing payments are still less than 10pc of total export earnings'.⁹⁰

By the third quarter of 1985, however, South Africa's enviable record on the international financial market lay in ruins. It is to an examination of the circumstances which led up to these 1985 developments that the next section is devoted.

(5) THE YEARS 1982-1985

By 1982 the gold-led boom was clearly over. The South African economy had moved into an almost continuous recessionary phase from

1981, except for a sudden and brief consumption led surge in activity between the end of 1983 and the second quarter of 1984. On the international front the world economy was itself in a state of decline for much of the period, unemployment remained a major problem in most Western capitalist economies, though most of these same countries had greater success in bringing down the inflation rate through the continued use of tough monetary and fiscal measures. International capital markets were in a parlous condition because of the South American debt crisis and the erratic movement of the US dollar. New lending to most developing countries by private international banks came to a virtual end in 1982 forcing new initiatives to be devised to address the international debt problem,⁹¹ most of which had at its core an expanded role for the IMF in international economic supervision and lending.

At the beginning of this period South Africa's credit rating remained good. In a survey conducted by the international banking magazine Euromoney in September 1982, South Africa's credit rating was upgraded to No 20 in the table of sovereign borrowers compared to No 38 in September 1981 and No 60 in 1980.⁹² The upgrading arose largely because of the debt crisis in some middle-income developing, and East European countries. The Rand Daily Mail announced proudly that 'the main reason for South Africa's change - in spite of the deterioration in the balance of payments - is that the average international banker has realized that South African borrowers not only honour their obligations but sometimes repay loans ahead of time'.⁹³ So conditions for South African activity on the international financial market were undoubtedly favourable.

Early in 1982 the SARB, by lowering marginally the premium for forward cover on loan of three months or longer, further encouraged foreign borrowing.⁹⁴ An increasing proportion of international loans made in this period were by the private sector and loans from all types of borrowers were increasingly short-term. On both counts these represented significant changes in the nature and structure of South Africa's international borrowing as compared to the mid-

1970s borrowings. 'South African borrowings in the mid-seventies were undertaken mostly by the authorities. Government had then anticipated a gold price above \$200 per oz to finance its ambitious capital projects. When the price failed to rise as expected, it was forced to look abroad for long-term loans, eventually bumping against the country lending limits of its creditors, as well as international political sensitivity to financing it'.⁹⁵

Indicative of the surge in private sector international loans was AECI's seven year credit of \$100m in December 1981, which was the largest medium-term foreign loan raised by a South African corporate borrower. Private sector investments were financed largely from retained earnings in 1980/81 but the scale of projects notably in pulp, paper and chemical industries, under conditions of tightening cash flows made international borrowing essential thereafter.⁹⁶ But the government and parastatal sector and ESKOM especially were not insignificant borrowers themselves. In 1982, ESKOM was in the process of building four large coal-fired power stations with a further two plants in the pipeline. ESKOM had become the biggest borrower of medium-term funds abroad, its 1982 borrowing, including export credits being close to R2 billion.⁹⁷

ESKOM was at the time involved in the erection of South Africa's first nuclear power plant at Koeberg near Cape Town, thus obtaining nuclear capacity without being a signatory to the non-proliferation treaty. Koeberg also now plays a significant role in South Africa's efforts to decrease its dependency on oil and to develop other means of energy. In April 1984 ESKOM arranged a unique \$50m loan, its first which did not carry the guarantee of the South African government. As Euromoney pointed out, 'not many public sector borrowers even in the OECD area have been able to achieve that successfully.'⁹⁸ The three-year loan at 5pc to 8pc over LIBOR was lead-managed by Guinness Mahon. Late in December 1983, when the South African army was operating deep in Angola the apartheid state secured a DM200m loan, the largest the government had raised on the West German capital market in one go. The loan

was also notable for its eight-year maturity period, the first time in years that a South African borrower had been able to exceed the previous (post-1978) seven-year limit. Some 70-80 international banks and financial institutions participated in the issue which was managed by eight financial organisations, with Deutsche Bank at the head of the management group.⁹⁹ The issue was led by (the local bank) Nedbank which was beginning to borrow on behalf of the state and state bodies from about mid-1982.

In general, over this period there was a rapid increase in the short-term component of South Africa's borrowing, resulting both from the nature of South Africa's borrowing requirements, which given the balance of payments problems were mainly trade and accommodation credits, and the decision of US banks in particular to reduce the maturity period of their South African loans. The latter factor became especially apparent after the township unrest which began in September 1984, and facilitated a quick retreat in adverse political or economic conditions. By mid-1982 short-term debts amounted to some 46,4pc according to the Bank for International Settlements, rising to 53,5pc in end-1981, 59,6pc in mid-1982¹⁰⁰ and 66pc in 1984.¹⁰¹ The falling rand vis-a-vis the dollar, (by end-1984) not only increased the country's debt burden, as most of the debt was then denominated in dollars, but led to a further increase and bunching in the short-term component of the debt as more and more importers held off repayment in the vain hope that the rand would recover.¹⁰²

With no shortage of private international loan sources, South Africa's R1,24 billion IMF loan in November 1982 appeared to be related to and directed at reassuring its private international creditors. 'International bankers', commented the Financial Mail, 'will be happy because there will be less pressure on South Africa to borrow abroad and they will be reassured that South Africa's economic progress is being monitored by the IMF'.¹⁰³ More than this, however, a UN study on South Africa's IMF loan application charged that the loan to South Africa 'demonstrated to the world financial

community that, despite increasingly violent confrontations between the majority black population and the white minority government in South Africa, the IMF would continue to support the status quo and the white authorities'.¹⁰⁴ Militz¹⁰⁵ observed that in 1983, after the IMF loan to South Africa was approved, private international banks provided South Africa with an unprecedented amount in credits, showing clearly the value and role of the IMF in the new conditions of the international economy.¹⁰⁶

At the same time as South Africa's application to the IMF was being made Finance Minister Horwood announced that South Africa was looking to the Far East for loans to form the capital of the Development Bank of Southern Africa. He hoped, he stated, that at least two major Far Eastern banks would invest money in the planned Development Bank, adding that one major Far East bank had by then already been part of a syndicate which made a major loan to South Africa.¹⁰⁷

On 7 February 1983 South Africa abolished exchange controls (and with it the financial rand) over non-residents and received plaudits from the IMF and some of its major international creditor banks. A senior IMF official commented that 'we are very happy to see the last of the financial rand. We had never made an end to it a precondition to the [1982] loan nor did the South African government promise it. It was more a case of having always frowned on such artificiality.'¹⁰⁸ And a Commerzbank spokesperson in Munich was reported to have stated, '[a]ny move into a free market is to be welcomed - especially this one which seems to be an acknowledgement that Pretoria now has enough self-confidence to take the step.'¹⁰⁹

There was within South Africa at the time little public criticism of these measures. It was only after the mid-1985 debt crisis broke that internal criticism of these liberalisation measures began to surface. Volkskas Bank managing director, Danie Cronje and Trustbank's Chris van Wyk both expressed opposition to the moves.

'The liberalization of the forex markets may have been the right system for South Africa but the timing was wrong', noted Cronje, adding that the speed of liberalisation was too fast.¹¹⁰ Despite this criticism from the two major indigenous (non-British) banks and other mainly Afrikaner businessmen, the key SARB officials remained committed to the progressive liberalization of exchange regulations.

While South Africa's standing on the international financial market and in financial centres was undoubtedly upgraded following the abolition of the financial rand, the South African monetary authorities were by late 1984 becoming increasingly concerned about the capital losses and diverted resources flowing from investment by South African companies seeking profitable outlets abroad. In the face of the domestic recession and despite the restrictive exchange controls on residents, and the falling rand, '[S]outh African controlled subsidiaries are rising like mushrooms in Europe, Australasia and the US, in sectors ranging from construction to stationery'.¹¹¹ Whatever the economic logic of these decisions on their own merits, it is clear that the decision to invest abroad was at least partly to remove 'a good number of their eggs from the politically unstable South African basket'. Soon international banks were to reach a similar conclusion.

Another factor which ought to have caused South Africa's monetary authorities some concern (but which until it was too late did not appear to) was the unsound international financial practices of some large South African banks. The big South African banks had from about 1982 been borrowing heavily abroad. Charles Grant gave the following foreign currency exposure for the main South African banks: Standard Bank \$2,5 to \$3 billion; Barclays National \$2 billion; and Nedbank \$1,6 billion.¹¹² According to the Euromoney Bank Report of October 1985, of the major South African banks Nedbank as a wholly owned South African bank 'was freer to expand overseas in contrast to its bigger rivals, Barclays National Bank and Standard Bank of South Africa, whose British controlling

parents took charge of their overseas operations.'¹¹³ The problem as the Financial Mail noted was that 'Nedbank which has been borrowing short-term in New York at lower inter-bank rates and turning these credits into long-term interest loans in South Africa (often to the government and parastatals) had been thought by US banks to be travelling in dangerous financial waters for some time.'¹¹⁴

By July 1984 at the time of the collapse of the Rand, the South African economy was in the midst of the worst and longest running recession, perhaps including the depression of the 1930s. Foreign debt was increasing and becoming ever more short-term in nature.¹¹⁵ But given the state of the international financial market from 1982, characterized by reasonably high liquidity and a shortage of 'good' borrowers, and South Africa's exceptional and enviable record of debt repayment, talk of a debt crisis, of debt rescheduling or debt moratoriums and the like was noticeably absent. In a special survey in June 1984, Euromoney noted that 'the last two years have been an extremely difficult period for South Africa's economy. For the first time in living memory the country had experienced two consecutive years of negative growth.' However, the report added that 'the worsening economic situation has not yet dented South Africa's creditworthiness in international markets.'¹¹⁶ In the first half of 1984 the South African government carried out its first European Currency Unit (ECU) and its first floating rate note (FRN) issue.

It took the upheavals in South Africa's townships and factories in September 1984 onwards to concentrate the minds of international bankers and local monetary authorities alike. These developments have been discussed in Chapter 3. In July 1985 the apartheid state responded to this increasing political resistance by declaring a partial state of emergency, in itself an admission of the seriousness of the situation. Thereafter the underlying tensions and crisis in the South African political economy could no longer be hidden under talk of 'political stability'; the risk of investment and loans to South Africa became apparent, some banks

and analysts arguing that the 'trend of current events suggests that South Africa may be facing social breakdown within the next two or three years', anti-apartheid and disinvestment pressure on US corporations and banks increased sharply. South Africa's foreign exposure, with well over 50pc of its debt scheduled for payment within a year and with large amounts due for repayments between 1985 and 1987, at last began to appear problematic when seen against political instability and declining economic prospects, no longer hidden behind the 'security' provided by the gold price rise in 1979-1980. Citibank in March 1985 wrote of South Africa's external finances as being in 'absolute chaos'. Worse still the bank report went on, 'no regard whatsoever has evidently been paid to the maturity structure of this debt - with the startling result that, according to the Bank for International Settlements, no less than 66pc of the debt is due to be repaid within one year. The report, an important one given its source, went on to suggest that

South Africa's main problem seems to be that it is facing rapidly rising expectations among the Black workforce - expectations which are now being expressed through increasingly militant union organisations, at a time when the economy's capacity to produce has been severely eroded by low gold and commodity prices, domestic drought, disinvestment by foreign corporations and gross financial mismanagement on the part of the Finance Ministry and the Reserve Bank.¹¹⁷

US banks, in particular, from the last quarter of 1984 began to reduce their exposure as a result of the political 'unrest' which began at this time. US banks, at the time, had a proportionally higher percentage of their total lending to South Africa in the form of short-term credits (85pc, compared to 57pc and 31pc for UK and West German banks, respectively). Because of this the liquidity of the South African economy was very sensitive to the decision of US banks regarding the roll-over of this debt.¹¹⁸ UK banks, however, were still involved in almost half of the total of direct bank loan channelled to South Africa in the period mid 1982-1984, with the Hill Samuel Group No 1 among the Top 10 lenders.

South Africa was also heavily dependent for short, medium and long-term syndicated loans and for bond management and underwriting to a small group of West German and Swiss banks, viz. Dresdner Bank, Union Bank of Switzerland and Swiss Banking Corporation, and given South Africa's heavy borrowing during the years 1981-84 even these banks who were very supportive of the financial needs of the apartheid state for long, were beginning to bump up against their internal credit limits and controls on exposure to this country. By August the international magazine South reported that rich individuals (the new and old 'international rich' who invest heavily in Eurobonds) 'often political supporters of apartheid who buy up South African bond issues (were)...getting cold feet.'¹¹⁹ Bondholders thus appeared to react in much the same way they did in the mid-1970s, by (temporarily) dumping their certificates and turning their backs on new South African issues. This new mood toward South African issues was noticeable in a \$100m bond issue for ESKOM in July 1985. Although the yield was 11,5pc, almost 2pc higher than a US Ford Motor Company issue in the same week, the issue was poorly received and sold slowly.¹²⁰

Although initially Swiss and German banks took up the gaps left by the reduced US exposure, the continuing violence in the townships, the disinvestment campaign and the underlying weakness of the South African economy increased the reticence of these banks to raise their exposure to this country. The changed perception of the future potential of the South African economy by banks and other investors is important to underscore. As the Financial Mail pointed out the South African economy was increasingly perceived as not being able or equipped to cope with the world of the 1980s and 1990s, as it appeared in the 1970s at the time of that earlier explosion of foreign borrowing. Whereas that burst of loans appeared to contribute to productive and infrastructural investment and technology inflows and increased productivity, and in all these ways enhanced the strength, resilience and potential performance of the economy, the early to mid-1980s loans were overwhelmingly short-term, trade and balance of payments-related credits, and

reflected if anything the weakness and vulnerability of the economy rather than strength.¹²¹

When inflation was high and everybody expected an energy crisis, an economy which produced the greatest proportion of the world's output and produced and exported vast quantities of coal was bound to do well. So it was believed in the 1970s. But at a time of low world inflation, a depressed oil market and an increasingly hi-tech led growth syndrome, South Africa's traditional comparative advantage and exports appeared much less valuable in the 1980s. As the Financial Mail almost ruefully noted, '[a]ll the old faithful standbys no longer apply'. Later the same report continued, 'the unrest is now so serious that any decisions to lend or to invest in South Africa are not just based on moral scruples - they are hard to justify by any measure of risk and reward.'¹²²

Under these scenarios the fact that South Africa's foreign debt and interest commitments were still moderate in relation to its current GDP and export revenues or that its debt appeared to compare relatively favourably with those in other (comparable) developing countries, offered little comfort. But the question of whether a country is actually, in a strict technical sense, in a financial crisis or not is not the only crucial factor. As Portes and Swobada point out most developing country's after 1980

may still have been 'solvent' on a suitable long-run calculation, but with uncertain expectations [and political instability] the distinction between insolvency and illiquidity for a sovereign debtor is both theoretically imprecise and politically untenable.¹²³

However, Holden has shown that at the time of the crisis South Africa's debt-service ratio (122,5) was not significantly better than that of Brazil (132,6), Chile (153,3), Mexico (161,8) and Argentina (214,9) These figures suggest that South Africa, given its fragile political climate, was overborrowed in relation to its exports, raising fears on the part of its creditor banks about the country's ability 'to meet current commitments on debt out of (its)

export revenue. These high ratios also meant that if new lending was either reduced or curtailed that a debt rescheduling could not be avoided'.¹²⁴

On 1 August 1985, a report appeared in the New York Times that Chase Manhattan Bank, the second largest US lender to South Africa had ceased extending credit to South Africa.¹²⁵ The report precipitated a rapid withdrawal by other US banks during August of about \$400m, as part of their refusal to roll-over short term debt due for payment.¹²⁶ Some of this was taken up or offset by additional lending from other banks, including some Japanese (and European) banks, according to Lind and Espaldon.¹²⁷ The value of the rand continued to fall (reflecting these tensions) dropping to a (then) record low of \$0,353 on Tuesday 27 August 1985. Finally on 1 September, as other foreign banks 'presumably indicated that they could not continue to counter-balance the US bank withdrawals, South Africa unilaterally proclaimed a moratorium on payment of the principal of the short-term debt.'¹²⁸ The moratorium was originally to last until 31 December 1985, but was later extended through the first quarter of 1986.

South Africa's long and mostly favoured relationship and status with private international banks and the international financial market in general, had reached its nadir.

Private international bank lending and credit to South Africa's Apartheid regime expanded rapidly in the period 1981-1984 given the liquidity of the international financial market, the shortage of good borrowers among developing and middle income countries in the wake of the Latin American and East European debt crisis and the relative political stability of the South African state. The panic brought upon the international financial community when South Africa's black townships exploded into a sustained and organised resistance to the apartheid state form, raising the prospects of a 'revolutionary transformation' to black majority rule, acted to strip away South Africa's remaining comparative advantages within

the world economic system. Its enormous short-term debt could no longer be 'discounted' by virtue of its 'political stability', economic prospects or enviable debt servicing and repayment record. The underlying weakness of the South African economy was exposed as was the gross financial mismanagement of its banking and monetary authorities. In the longer term its growth and development prospects were perceived to be limited by its inability to match developments in the newly industrialising economies. For foreign investors and international bankers the liability of political instability and economic lethargy, even backwardness, finally became too heavy to bear. The causes of the crisis in South Africa's international financial relations were thus not simple or linear. They arose out of a complicated set of factors which affected the international financial system as a whole, South Africa's standing within that system as well as both economic and political developments and changes within South Africa itself.

(6) CONCLUSION

South Africa received large amounts of international credit from private international banks and through publicly and privately-placed bond issues virtually throughout the period of this study. The enormity of state and parastatal borrowing for strategic and infrastructural investment in the early to mid-1970s is one of the most significant features of the involvement of private international banks and bondholders with South Africa in the years since 1970. This credit enabled South Africa to build up a strong infrastructural, strategic and (to a lesser extent) productive foundation and despite the growing economic crisis of the post-1973 period, this foundation formed an important bulwark for the apartheid state, enabling it to resist, even if it is not likely to indefinitely put off, the demands of internal and international pressure for a restructuring of its racially-based political and social structure. Despite the problems these and other large borrowings were later to create, clearly the South African state

and private sector, were for some time also able to utilise the opportunities created by their integration into world financial markets.

In two periods, the two years following the Soweto student revolt in 1976 and the years immediately after the more generalised political crisis set in in 1984, banks and bondholders responded by either reducing loans, changing the terms of lending or cutting links altogether for some time. In both periods, private bondholders appeared to react in a similar way, ie by dumping their South African holdings to financial institutions in the secondary bond market wherever possible. Although private bondholders supported South African issues, notwithstanding the country's racial policies, they are, in general, more susceptible to sudden changes in political conditions in issuing countries, having neither the resources nor the analytical sophistication of banks or other financial institutions to back them. Whereas the latter can adopt strategies to discount or reduce or manage some percentage of political risk where they believe political tensions to be temporary, private bondholders cannot. It is thus not surprising that for some time after 1976, new South African issues were, as far as can be publicly ascertained, entirely absent from the European bondmarket. From about 1980, however, South African parastatals were back in the bondmarket. In the wake of the political problems after 1984, however, it is apparent that new South African issues were again poorly received, stopping altogether in the second half of 1985.

Private international banks, on the other hand, responded to the mid-1970s crisis in three ways. First, by reducing the maturity period of their loans to South Africa, secondly, by reducing their loans to the state and parastatals or by making such loans more covertly, and thirdly, by claiming that their loans were directly linked to programmes of black social advancement. Following these responses, short-term bank loans to the private sector in the main increased rapidly after 1979 as compared to the predominantly state

borrowings of the mid-1970s, especially as memories of Soweto and Angola faded, the gold price rose to heady levels and international conditions turned in ways which improved the relative attractiveness of lending to South Africa.

However, the depth and intensity of internal political resistance to apartheid, mounting international pressure, the increasing dangers of overexposure arising out of the (then) current levels and maturity structure of their loans, the fall in the gold price, and the limited economic prospects of a mineral and primary exporting country in the international economic conditions of the 1980s, as compared to global conditions in the 1960s and 1970s, all combined to turn South Africa's relations with private international banks into crisis by mid-1985. This time banks, went beyond their mid-1970s response, by not only cutting most forms of new loans, but by also calling in and not rolling over existing debt.

ENDNOTES

1. For an explanation of the functioning of the Euromarket see, for example, Schweitzer and Mattle, 1983: *The Banker*, September 1977; Falkena, et al, 1984, especially Chapters 32-34.
2. See for example, Padayachee, 1987.
3. See for example, Seidman and Makgetla, 1980.
4. *Institutional Insider*, No 24, November 1975, quoted in *US Corporate Interests in South Africa*, 1978.
5. *Financial Mail*, 03.09.82, p1130
6. *Economist*, 15.05.76
7. *Economist*, 15.05.76
8. First et al, 1972, p34
9. *Financial Mail*, 04.06.71
10. *Financial Mail*, 18.06.71
11. Previously abbreviated as ESCOM.
12. *Financial Mail*, 10.09.71
13. *Financial Mail*, 10.09.71
14. *Financial Mail*. 08.10.71
15. South Africa devalued the rand by 4pc in October 1972.
16. *Financial Mail*, 04.08.72
17. *Financial Mail*, 04.08.72
18. *Financial Mail*, 15.06.72
19. *US Corporate Interests in South Africa...1978*, p47
20. Seidman and Makgetla, 1980, p217
21. *Financial Mail*, 18.04.75
22. *Financial Mail*, 18.04.75
23. Seidman and Makgetla, 1980, p219
24. *Financial Mail*, 18.04.75

25. Financial Mail, 07.11.75
26. Financial Mail, 12.12.75
27. Seidman and Makgetla, 1980, p219
28. Financial Mail, 20.01.76
29. Economist, 15.05.76
30. Financial Mail, 09.04.76
31. Financial Mail, 02.07.76
32. The margin over LIBOR reflects something of the risk attached to the credit.
33. Financial Mail, 02.07.76
34. Financial Mail, 02.07.76
35. Clarke, 1981, p74
36. Rand Daily Mail, 08.10.76
37. Rand Daily Mail, 08.10.76
38. Euromoney, October 1976
39. Rand Daily Mail, 25.09.76
40. Rand Daily Mail, 09.11.76
41. Kaplan, 1983, p164
42. Lipietz, 1987, p107
43. Financial Mail, 21.05.76
44. Clarke, 1981, p68
45. Quoted in US Corporate Interests in South Africa... 1978, p52 from which source the data for this section is drawn.
46. South African Digest, 24.06.77, p13
47. Clarke, 1981, p72
48. Rand Daily Mail, 05.11.76
49. US Corporate Interests in South Africa...1978, p54
50. US Corporate Interests in South Africa, 1978, p54

51. US Corporate Interests in South Africa...1978, p56fn
52. US Corporate Interests in South Africa... 1978, p56
53. Seidman and Makgetla, 1980, p217
54. US Corporate Interests in South Africa, 1978, p64
55. Quoted in US Corporate Interests in South Africa, 1978, p65
56. Financial Mail, 17.03.78
57. Financial Mail, 24.03.78
58. Financial Mail, 07.10.77
59. The Banker, May 1978
60. Financial Mail, 08.07.77
61. This loan appears not to have been taken into account in the data/table in Kaplan, 1983 (see Table 10) and this difference is illustrative of the difficulties in obtaining reliable and accurate information on South African loans.
62. Financial Mail, 22.07.77
63. Handelsblatt, June 1978
64. Financial Mail, 03.11.77
65. Financial Mail, 03.11.77
66. Financial Mail, 29.12.78
67. de Kock, April 1987
68. Financial Mail, 09.02.79
69. Financial Mail, 02.05.80
70. Seidman, 1988, pp204/5
71. Financial Mail, 03.10.80
72. Newsweek, 20.10.80
73. Financial Mail, 06.06.80
74. Financial Mail, 29.06.79
75. Newsweek, 20.10.80
76. Newsweek, 20.10.80

77. Seidman and Makgetla, 1980, p223
78. Seidman and Makgetla, 1980, p223
79. Seidman and Makgetla, 1980, p223
80. Newsweek, 20.10.80
81. Financial Mail, 19.01.79
82. Financial Mail, 15.08.80
83. Financial Mail, 26.02.82
84. Financial Mail, 26.02.82
85. The Banker, May 1982
86. The Banker May 1982
87. The Banker, May 1982
88. de Kock, April 1987
89. The Banker, May 1982
90. The Banker, May 1982
91. The Baker plan being an example here.
92. Euromoney, September 1982
93. Rand Daily Mail, 07.09.82
94. Financial Mail, 19.03.82
95. Financial Mail, 09.07.82
96. The Banker, May 1982
97. The Banker, May 1982
98. Euromoney, June 1984
99. Financial Mail, 16.12.83
100. Financial Mail, 14.01.83
101. CitiBank Report, March 1985
102. Financial Mail, 14.12.84
103. Financial Mail, 08.10.82

104. New York Times, 21.10.82
105. Militz, 1985, p11
106. It has not been possible to verify the accuracy of this figure.
107. Rand Daily Mail, 20.09.83
108. Financial Mail, 11.02.83
109. Financial Mail, 11.02.83
110. Euromoney, December 1985
111. Financial Mail, 19.10.84
112. Euromoney, December 1985
113. Quoted in Lind and Espaldon, 1986, p4
114. Financial Mail, 13.09.85
115. CitiBank Report, March 1985
116. Euromoney, June 1984, Special Survey
117. CitiBank Report, March 1985
118. Lind and Espaldon, 1986, p3
119. South, 1985, p78
120. South, August 1985, p78
121. Financial Mail, 06.09.85
122. Financial Mail, 06.09.85
123. Portes and Swoboda, 1987, p44
124. Holden, 1987
125. New York Times, 01.08.85
126. Lind and Espaldon, 1986, p3
127. Lind and Espaldon, 1986, p3
128. Lind and Espaldon, 1986, p3

CHAPTER 6

PRIVATE INTERNATIONAL BANKS, THE IMF AND THE RESCHEDULING OF SOUTH AFRICAN DEBT: 1985-1987

(1) INTRODUCTION

Both the South African apartheid state and private sector for long prided themselves on the country's exceptionally high credit rating in international financial markets. Especially at the time (c1979-1985) when Latin American and East European countries were constantly on the verge of default or desperately seeking debt relief, South Africa's debt servicing record was a source of pride in official circles. And despite the fact that the South African state, especially in the early to mid-1970s, and the private sector, especially after the second oil-price hike (1979) increased their international borrowing from the banks of the US, UK, FRG, and Switzerland in the main, there did not appear to be any reason to panic. In comparison to the problems of other debtors, South Africa's debt appeared inconsequential. Talk of debt crises and of possible rescheduling seemed almost laughable.

And yet as we have seen, on 1 September 1985, within a month of Chase Manhattan Bank's decision to call in and not roll over its South African debt, the South African Finance Minister announced a four month stand-still on the repayment of the country's foreign debt. Furthermore, the Minister announced that in terms of 'accepted international practice, the South African authorities are in the process of acquiring the assistance of a reputable and independent international financial expert to assist in negotiating a programme for the resumption of debt repayments'¹ In short, the South Africans had begun, what for them, was the traumatic business of rescheduling their debt repayment. Following the crisis of mid-1985, the nature and character of South Africa's international financial relations were in the process of being fundamentally transformed from those which prevailed in an earlier era.

We have already examined the background to the South African debt crisis.² This chapter seeks to examine events immediately thereafter. The changed and changing nature of South Africa's international financial relations is examined through a study of South Africa's debt rescheduling arrangements which culminated in the second interim debt agreement of 24 March 1987. While debt-rescheduling arrangements are in themselves not unusual these days, South Africa's took place against a backdrop of mounting international economic, political and diplomatic pressure against the apartheid form of the South African state, as well as both growing resistance and repression internally.

It was argued in Chapter 5, that beside the important economic factors of the country's deteriorating economic performance and its declining credit-worthiness (ie its high debt-service ratio), it was the fear of rapid, destabilising and radical political change which underpinned the actions of Chase Manhattan Bank, Security Pacific Corporation, CitiBank and others in mid-1985. The possibility of political collapse and of the imminence of black majority rule, and the fears of nationalisation, socialisation and civil strife these prospects seemed to conjure up in the minds of bankers and financiers, weighed heavily in bankers' reassessment of the risk of their South African exposure in mid-1985.

However, it would appear that any thoughts that may have been held in mid-1985 that the regime was about to fall, so jeopardising the possibilities of banks recovering their loans to South Africa, had been mostly dispelled by certain political and economic changes which were in place by mid-1986. These changes included the restoration of a greater degree of political stability in South Africa, albeit by extremely repressive measures such as the declaration of a state of emergency and the banning and restriction of political and worker organisations. Others included the implementation of a moderate package of political reform and the 'successful' adjustment in the balance of payments brought about

by a combination of deflationary policy and the effects of the low dollar value of the rand on exports.

These economic and political changes since 1986 appear to have reduced the need to pressurise the apartheid state with the intensity (and consequent added risk of precipitating a South African default) that appeared to characterise the actions of private international banks in mid-1985. The regulation approach underlines the importance of political factors as an element in the decision-making processes of banks, investors, the IMF and other global actors, especially since 1982 when the debt crisis emerged as a serious threat to global economic stability.³ We would argue in terms of the regulation approach that both political destabilisation and economic deterioration combined to produce the banks' dramatic gesture of calling in their loans in mid-1985, but that the restoration of some degree of political stability after mid-1986 contributed to a somewhat revised, though differential, assessment by creditor banks of their attitude and new lending to South Africa as well as their stance on rescheduling South Africa's debt.

What is argued in this chapter is that although South Africa remained economically weak and in crisis judged in terms of its failure to generate robust and sustainable increases in growth, employment and investment, and was nowhere nearer a more just socio-political order, its international financial relations were not as badly off in March 1987, at the time of the second interim agreement, as they were in August 1985. Foreign bankers, who increasingly came to recognise that their bargaining power vis-a-vis South Africa was slipping away, were gradually forced by changing economic and political factors to adopt a more conciliatory attitude in their debt rescheduling talks. Although differences between banks in the US and Europe were undeniable and the IMF in contrast to some private banks continued to limit financial assistance to South Africa, the outcome of the debt rescheduling was more favourable to South Africa than many expected

or hoped for. By late 1987 there were signs that some European bankers were providing South Africa with small, though irregular amounts of loans. Trade credits which were exempt from the 1985 restrictions on new foreign loans, continued to be available.

All this is not to suggest, however, that South Africa's international financial relations had returned to normality. On the contrary restrictions on the inflow of new loans and on IMF balance of payments assistance continued, placing severe strains on foreign reserves and limiting a sustainable cyclical upswing. The existing restrictions on loans still, by 1989, represent a major obstacle to the smooth transition to a new regime of accumulation and mode of regulation and the subsequent restoration of the conditions for renewed capital accumulation.

(2) THE RESCHEDULING: AUGUST 1985-MARCH 1987

It is important at the beginning of this analysis to recapture briefly the economic and political climate and events of the period leading up to the Chase Manhattan Bank decision, the unilateral declaration of the debt moratorium by South Africa and the subsequent rescheduling talks. These events have been described in more general terms in Chapter 3. The year beginning September 1984, represented one of the most dramatic periods in South African political and economic history. Events moved fast. The township 'unrest' set off a twelve month period of turmoil, during which time the apartheid state declared a partial state of emergency in order to reassert its control over the activities of political organisations and trade unions and so to control the pace of 'change'; debate over the imposition of sanctions and disinvestment began increasingly to be translated into action; and the economy was more regularly characterised as being 'in crisis'. The institutions and structures which ensured the conditions for the unproblematic (though perhaps less than virtuous) cycle of capital accumulation in the 1960s, appeared to be breaking down, and

nothing short of fundamental restructuring of the political economy, it seemed, would succeed in restoring conditions favourable for accumulation. Both within and without the country, there arose a 'feeling' that a turning point had been reached in the struggle against apartheid, and that with just a little more pressure all round the liberation of South Africa would be won.

Obviously differences emerged about what this would imply for the post-apartheid political economy. A survey conducted by stock brokers Mathison and Hollidge among European and American money managers in mid-1986 for example, indicated a widely held perception that 'white rule will end', that 'time was short', and that investment in South Africa thereafter would be pointless. The fear among bankers of 'black majority rule' in South Africa, is most evident here. Pulling-out and not reinvesting in South Africa, as a way of expressing displeasure against apartheid, did not appear to be uppermost in bankers' assessment. The majority of respondents felt that South Africa would be a place from which it was prudent to stay away.⁴ The Wall Street Journal, in our view accurately, described the mood in 1985/6 as follows:

In 1985 and 1986, when pictures of rioting blacks and rampaging white policemen filled television screens around the world, the perception was that South Africa's white-dominated government was losing its grip. The economy wasn't given a chance. International banks were pulling their credit, foreign debt was unpayable, economic sanctions were being applied ever more widely against Pretoria's race-separation policies, and multinational companies were disinvesting in droves.⁵

Following Chase Manhattan Bank's decision of 1 August 1985 and the 'Rubicon' speech of the South African State President on 15 August of that year in which he quashed prospects of a move towards moderate reform, the run on the already embattled rand accelerated. International bankers and investors, we would argue, would have been hoping for some minimalist political concessions which would have pricked the near-insurrectionary bubble which prevailed at the time and created the political stability and climate for controllable and evolutionary change. This is particularly true,

given the domestic pressures they faced, of US banks. It is less true for Swiss and German banks, whose stance towards the apartheid state over the years, suggests that they would have been more narrowly interested in political stability than in political change, especially one in the direction of black majority government. In any event the Rubicon speech did little to appease either of these camps at the time.

Thereafter South Africa's foreign exchange reserves fell to dangerously low levels. Net gold and foreign exchange reserves fell by R480m in August and R1126m in September 1985.⁶ There was considerable uncertainty about South Africa's ability to meet its short-term foreign debt obligations. In these circumstances the country's monetary authorities were faced with some combination of the following unappetising options: effect further gold swaps (ie pawning gold for foreign currency), re-introduce exchange controls over non-residents (which had been discontinued in February 1983, with much fanfare), or declare a moratorium on the country's foreign debt. The last of these, even at that stage, appeared more of an academic rather than a real option. The Financial Mail commented that 'short of an immediate and major political policy announcement- which would have the most dramatic and positive effect'⁷ the above three options were the only ones left to save the day.

On the 27 August the South African monetary authorities announced the closure of the foreign exchange market and the Stock Exchange from 28 August to 1 September 1985 in order 'to assess the situation and to decide on a policy strategy that would cause the least disruption for both the international lenders to South Africa and the South African economy.'⁸ On the next day (then) Reserve Bank Governor Gerhard de Kock set off on a thirteen day tour of the US and Europe, during which time he visited nineteen bank chairmen, four central bankers as well as the IMF and the US State Department. According to de Kock, the objective of the mission was not to ask banks to restore credit lines. However, it was widely

believed that it was his failure to get banks to agree to restore credit lines which forced South Africa to impose the standstill. However, de Kock stated that he had decided on the standstill on 27 August, before he left and that the visits to the financial centres was the 'only honourable thing to do-to explain face to face what we were going to do and ask advice.'⁹ De Kock did indicate that he knew little about rescheduling, and was not going to apologise for this fact. In New York, he apparently found in CitiBank's Bill Rhodes, his 'mentor and teacher.'¹⁰

De Kock's mission was to prove rather unsuccessful, even in terms of his view of its objective. The man who was soon to be appointed the debt mediator, Fritz Leutwiler, described de Kock's visit to Switzerland at that time as 'not a very successful trip, to say the least.'¹¹ Bank of England Governor Robin Leigh-Pemberton refused to see de Kock, so thwarting his face-to-face talk. In France, Rothschild's chairman, a director of de Beers, only met with him discreetly. Swiss National Bank's Pierre Languetin went 'to the extraordinary length of officially denying a report that he had seen (de Kock)'.¹²

With de Kock still in the middle of his tour, the Minister of Finance, Barend du Plessis unilaterally announced a four-month standstill or freeze on repayments of South Africa's foreign debt, so becoming the first sovereign debtor to renege on its short-term interbank lines.¹³ Furthermore the financial rand was reintroduced to avoid the stock exchange being used as a conduit for the evasion of the debt freeze. Non-residents wishing to buy or sell South African assets would thenceforth have to use a special currency, the financial rand. Other transactions would continue to be made through the commercial rand, which would now be insulated from foreign disinvestment pressure. The mechanism for determining the value of the rand was also altered. Up to that point the rand had been 'floating', its value determined primarily by market forces, under which system it had lost nearly a third of its value in the preceding month. The South African authorities decided to intervene

more directly in the market for the rand, converting the system for determining the rand's value into a 'managed float'.

It was also announced that South Africa would acquire the services of an independent financial expert to assist in negotiating a programme for the resumption of debt repayments. Various types of foreign debt were exempt from the standstill, ie. they fell outside the standstill net as it were. These included public bond issues, loans guaranteed by foreign governments, repayment on South Africa's 1982 loan from the IMF, the South African government's own debt, forward foreign exchange contracts and most forms of trade credit or finance. These exemptions were not always easy to understand however, and banks interpreted the measures, especially in regard to trade finance in various ways, thus forcing the Reserve Bank to issue a long series of memoranda in order to clarify the rules. This obviously did not endear it to local and foreign financiers. The general manager of a local bank is quoted as saying that

the Reserve Bank should have stopped all payments, and then relaxed the situation as necessary - rather than just go half way, and let a lot of money escape. They've blundered in and messed everything up. They should have closed the markets for longer and consulted bankers in South Africa and abroad, which they didn't do. Overseas bankers haven't been impressed by the weird logic of what's been included in the net.¹⁴

The South African authorities were from the very beginning set on dealing with the crisis in terms of the orthodox rules of international finance. Their stated objective was to normalise South Africa's international financial relations as soon as circumstances permitted, to regain the confidence of foreign bankers and to reestablish the country's creditworthiness. Unlike other countries facing debt problems at the time, South Africa did not press for changing the rules of addressing the international debt crisis. It continued to see its problems as a short-term aberration, caused by the overhasty actions of a few US banks.

Thus the standstill measures were designed, in the language of the monetary and finance officials, to achieve an orderly management of the gradual reduction of the country's foreign debt at an affordable rate; to create the scope for the relaxation of the restrictive monetary and fiscal policies then in place; to discourage disinvestment by non-residents; and finally to facilitate an early resumption of economic growth. In more direct language the objective was to convince governments and bankers overseas that South Africa would be able to maintain political and economic stability, while proceeding with reforms. Finance Minister du Plessis concluded his 1 September statement with these words: 'The government has the political will and management resources to achieve these objectives. South Africa has the economic means and human potential to meet this challenge while continuing to play its historic role as a regional power in the development of southern Africa.'¹⁵ The last point was meant to remind bankers and Western governments of the important function it had previously played in southern Africa, in the hope that they would not want to jeopardise this special relationship.

The South African authorities then set up what became known as the Standstill Co-ordinating Committee (SCC) in the third week of September in order to deal with their side of the debt negotiating process. The committee was headed by Chris Stals, then Director-General of Finance, (and presently Reserve Bank Governor), who Euromoney described as a 'less passionate and more pragmatic'¹⁶ free-marketeer than Reserve Bank Governor de Kock. Stals is in fact a protege of (the giant Afrikaner insurance conglomerate) Sanlam's late chairman Fred du Plessis, who was one of the foremost spokespersons of the interventionist school of economic thinking in South Africa. Stals stressed the technical nature of the SCC, claiming that its task was not in any way to deal with the political aspects of the crisis. That task, he believed, may later be handled by what he referred to as a 'political team' once the technical matters were sorted out.

What remained unresolved was the way in which the foreign banks would be represented at the rescheduling talks. By one account the creditor banks had set up a committee of twenty-nine of the biggest creditor banks immediately after the South African debt moratorium declaration, in order to renegotiate repayment terms.¹⁷ On the other hand, Euromoney was informed that these creditor banks were not prepared to set up a rescheduling committee as 'none of them wanted to be seen as dealing with apartheid.'¹⁸ How true this was is hard to say as the banks had had little trouble for decades dealing with the apartheid regime. Perhaps it is more accurate to argue that they now doubted the long-run profitability of dealing with a politically unstable South Africa in which the overthrow of the apartheid state and its replacement by a black majority government seemed at the time, a distinct possibility. Furthermore, since the IMF's 1983 decision to restrict lending to South Africa, the banks had to make decisions on their South African exposure without the overt and complementary support of the IMF, especially as the Fund's supervision of South African economic policy is likely to have declined somewhat after this date.

To overcome the problem of bank representation de Kock resolved to persuade an internationally respected financier to represent the banks and to act as a mediator in the rescheduling talks. Fritz Leutwiler, the former head of the Swiss National Bank, and the chairman of the international finance firm Brown Boveri, was chosen above two other possibilities, Gordon Richardson and Jelle Zjilstra. De Kock apparently asked Leutwiler to take on the task 'not for South Africa, but out of a sense of responsibility for the international banking system.'¹⁹ Leutwiler checked out his participation with the Swiss President, in case his involvement (in his words) 'harmed or embarrassed the Swiss government',²⁰ and agreed to do the job on condition that all the major creditor banks agreed. They did. Price Waterhouse and Partners, a London-based firm of accountants, who were paid by the South Africans, agreed to provide the support services for the rescheduling talks. It was a happy coincidence for South Africa that Leutwiler was an old-

time friend of former Finance Minister Owen Horwood, who knew de Kock well into the bargain. Leadership described Leutwiler as a 'tough, no nonsense character, with a fortuitous liking for South Africa.'²¹ He had to deal not only with the stubbornness of the South Africans, but also with the tensions among the creditor bankers, the views of various European governments as well as the Americans, and not least with the implications of his position for his company, Brown Boveri. Antony Sampson makes the point that Brown Boveri had important contracts with China and that the Chinese had apparently politely informed Brown Boveri that they had noticed that the chairman was 'involving himself with white South Africa.'²²

In October South Africa had the opportunity to meet with more international bankers and governments at the annual meeting of the IMF and World Bank, which was being held in Seoul, South Korea. There they argued that the decision of the banks in recalling their South African loans and refusing to extend new credit would most harm South Africa's blacks and its black neighbours. South African officials stressed the importance of growth in their country for the development and stability of the region and du Plessis warned of the threat to the 'integrity of the present international financial system,'²³ brought about by the actions of its creditor banks.

As far as IMF assistance to South Africa was concerned, this appeared out of the question according to Stals. As we have seen, in 1983 the IMF had partially restricted further IMF assistance to the apartheid state, and tied future lending, outside automatic reserve tranche borrowing, to vaguely defined political and economic reforms. However, as Stals (arrogantly) pointed out, it was not this that prevented South Africa from receiving IMF assistance. He was confident that South Africa could get past the political obstacle as the IMF staff had 'always been very much on South Africa's side.'²⁴ The problem was that South Africa was running a current account surplus (itself largely a reflection of

the low value of the rand) and that there was no precedent for the IMF to assist a member with a balance of payments surplus on current account. South Africa's external problems lay in the capital account.

However, we would argue that Stals was wrong in his assessment of possible IMF support for South Africa. Short of a change in US foreign policy towards South Africa, itself dependent upon some political reform acceptable to the US in the main, it is unlikely that the country will receive IMF financial assistance in the event of the current account of the balance of payments running into deficit. As long as anti-apartheid pressure on the US administration, from Congress which has since 1986 taken a more bi-partisan approach to South Africa, from the black Congressional caucus and from students, church leaders and some corporate shareholders, persists, there is little likelihood that the administration will instruct the US Executive Director to the Fund to support South African loan applications. The IMF, given its domination by the US and its wide supervisory role within the world economy, comes under more direct political pressure than private international banks who are more narrowly concerned with financial risk. In the long post-war years this role translated into support for South Africa. In the unstable global and South African context of the 1980s, this situation has been reversed. We would argue that it will take political change and an economic restructuring package which meets with the approval of (at least) the US and the IMF before this situation reassessed. It should not be surprising that the IMF and banks, being very different institutions, may have different responses to specific and unusual cases such as the South African one, in which both economic and political factors are present. However, banks in different countries may also come under varying degrees of pressure from their governments and shareholders, as the varying and sometimes conflicting demands and responses of US, and say German and Swiss, banks to South Africa's post-1985 problems indicate.

Leutwiler was in the meantime attempting to get the creditor banks together. Eventually a meeting was arranged with the twenty-nine major creditor banks who had in the wake of the debt moratorium met for discussions. It would appear that these banks had after all overcome their opposition of 'dealing with the apartheid state'. These banks, who among them, held some 70pc of the South African debt represented South Africa's 233 creditor banks at the meeting in London on 23 October 1985. This first meeting between the banks and South Africa took place under conditions of great strict secrecy.

Anti-apartheid pressure groups, as well as South African churchmen including Archbishop Desmond Tutu and the Rev. Beyers Naude had asked the banks to 'make rescheduling of South Africa's debt conditional upon the resignation of the present regime and its replacement by an interim government responsive to the needs of all South Africa's people.'²⁵ Not unexpectedly, the banks despite their public stand against apartheid, and the linkage of their earlier decision on the South African loans to the apartheid system, made no demands on the South Africans that would threaten their ability to recover their loans and to get out with minimal losses. In the still unsettled political climate of late 1985, financial rather than political or moral, considerations were foremost in bankers calculations.

However, because of pressure from their own deposit holders and institutional investors such as churches and universities, the US banks in particular were obliged to ask for some positive political signals from Pretoria. Continuing political violence within South Africa made it difficult for the political factor to be totally ignored. The Financial Mail reported that foreign bankers were 'appalled at the recent police action in the Cape and the execution of Ben Moloise...'²⁶ But there is some validity in the Mail's claim that, if anything, these actions merely confirmed the existing perceptions of the bankers about the South African political situation, rather than worsened it. For no matter how 'appalled'

they were at the actions of the apartheid state thereafter, it is difficult to see what more banks could do in response, without jeopardising their own economic interests. Somewhere at this point the balance of power began to shift out of the hands of the bankers. Their ability to squeeze South Africa in their own best interests (let alone for the sake of the South African oppressed) began to bump up against the risk of precipitating default by the South Africans. Later, some members of the creditor banks' technical committee readily admitted this decline in their relative power vis-a-vis South Africa.²⁷

Leutwiler was himself not keen that the political factor be raised openly at that meeting. The South African delegation again stressed their point that the outflow of capital from South Africa would negatively affect development and that this would fall disproportionately on blacks. They also argued that it would be impossible for them to repay \$14,3 billion within a year. It would appear that South Africa offered to repay interest only in the following five years, and to begin capital repayments only at the end of this period. This rescheduling plan was not even considered feasible by Leutwiler in view of the political situation in South Africa, which according to him distinguished the South African case from the way they could have proceeded with a Latin American country.

American banks were particularly opposed to the plan as a higher proportion of their loans were caught inside the net than Swiss and German banks. Inter-bank tensions were also heightened by the obvious displeasure of the Swiss and German banks at what they regarded as the overhasty actions of Chase Manhattan and other US banks. These tensions no doubt were useful to Leutwiler. The meeting ended with not even the most basic issues settled. No one apparently knew the full extent of South Africa's foreign debt, or of what was or was not included in the debt standstill.²⁸

The next meeting was scheduled to take place on the 26 November 1985. Stals was pessimistic that an agreement could be reached before the 31 December 1985, which was the date at which the four-month standstill came to an end. It also appeared that some banks, including significantly the US banks, had begun to accept the inevitability of a further extension of the standstill. The Financial Mail noted that 'American banks believe legal factors and political pressures will make it impossible for them to sign a rescheduling agreement quickly...'²⁹ European banking sources were also understood to have revealed that South Africa would be wise to offer some amount of repayment of the principal or capital at the next meeting. One foreign banker was also quoted as saying that 'if there was a statement of a confederal constitution that had some integrity South Africa could find foreign creditors approaching rescheduling with a different attitude.'³⁰ Clearly moderate reform by undermining the threat of revolutionary transformation, would have given the banks a greater feeling of security about the country's political future. This would have allowed them to reschedule South Africa's debt on easier, and perhaps no less favourable, terms and provided them with some ammunition to defend themselves against the anti-apartheid movement abroad.

As it turned out the 26 November meeting was postponed amid speculation that this was designed to give the South Africans breathing space to carry out or at least announce some moderate yet meaningful political reform.³¹ This was strongly denied by Stals who claimed that the decision was taken by Leutwiler and the South Africans for purely technical and tactical reasons and that the banks were not even consulted and had no influence on the decision. Nevertheless it was true that expectations were building up over the South African State President's speech at the opening of Parliament in late January 1986.

In late November, Leutwiler was persuaded by the South Africans to submit their 'very ambitious programme for a multi-year

rescheduling' (MYRA) ³² to the creditor banks. Leutwiler himself reported that he agreed to this only on condition that the proposals go out as a South African proposal, and not his, although he declared that he would not oppose it publicly. The reaction of the banks was 'disastrous' to use Leutwiler's word. The banks thought it was arrogant of the South Africans not to offer any capital repayment. But as Leutwiler put it, 'maybe with hindsight it was useful to send out such a proposal because when I came up with my own it was received rather more positively.'³³

Not surprisingly, as it suited both parties though for different reasons, the standstill was extended to the end of March 1986. In January 1986 Leutwiler made a low key visit to South Africa, to tell the South Africans of the banks' reaction to their MYRA, to set up the details for the next meeting and to meet with President Botha. The South Africans were becoming worried that Leutwiler was bringing political factors to the forefront of the negotiations, and there were even some doubts expressed about his suitability as the mediator. Leutwiler made it clear to the SCC that they would have to offer a token capital payment as a demonstration of goodwill, as well as a generous interest rate to compensate for the political 'background'. The Americans more so than the Swiss and German banks needed this financial inducement in order to accept the plan, which Leutwiler was to propose. But Leutwiler also felt that the 'high' interest rate was justified on the grounds of South Africa's economic situation. 'You can argue about whether it should be three quarters or one percent. But it could not have been less than three quarters of a percent in South Africa's position. I'm not talking about the political situation there, but the economic situation.'³⁴

Leutwiler was also assured by Botha that reform was on the way. He left South Africa optimistic over the question of political change. However, as the Financial Mail put it 'things that may sound politically acceptable to him may not be acceptable to the US banks.'³⁵ He then returned to Europe, finalised his plans and sent

it out to the bankers, with a take it or leave it option. 'I didn't see a future role for myself if those proposals were rejected either by South Africa or the banking community or both.'³⁶ Most of the banks were in favour of his proposals, which included a five percent capital repayment, although some wanted more. The Americans wanted to see more by way of political reform given the greater pressure which they faced from their institutional clients. Significantly, the Financial Mail reported that some continental banks were likely to be unhappy if even some of the (moderate) political reforms demanded by the Americans were conceded by South Africa. 'They believe these reforms would only further threaten the security of their money.'³⁷ For these European banks even the prospect of some black political representation was not welcome for this reason.

In the meantime the South African rand which had not responded favourably to the debt standstill or the 23 October meeting began to rise slowly. No one though was sure that this was going to be sustained, nor was its rise obviously related to developments on the debt rescheduling front. There were reports in some South African newspapers that in the event of no agreement being reached, South African assets overseas, including SAA aircraft, might be seized. This was strongly denied by the Americans, who argued that such action would only be used as a last resort. They still hoped to reach an agreement by the 31 March 1986. The South Africans were keen to portray themselves as being serious about political change. On 31 January 1986, President Botha announced the scrapping of the pass laws with effect from July of that year. The act was repealed. He also announced a proposal to incorporate black South African into a negotiating forum to be called the 'National Statutory Council'(NSC) and conditionally promised to release the gaoled black political leader, Nelson Mandela.

The NSC was widely rejected, even by moderate black 'leaders' such as the KwaZulu leader Chief Buthelezi and Mandela remained in Pollsmoor prison. Furthermore there was dismay, even on the part

of Leutwiler, at the South African President's slapping down of Pik Botha, his Foreign Minister, for daring to concede in a speech that it was not impossible that South Africa might one day have a black President. Similar concern was expressed at the implications for meaningful reform of the resignation of the leader of the Parliamentary Opposition, Frederick van Zyl Slabbert. The Commonwealth team of 'three wise men' arrived in South Africa in late January, and Tutu, Boesak and Naude repeated their earlier call to the banks to take a tough political stand against South Africa, demanding the resignation of the South African government, before agreeing to reschedule its debt.

At the next meeting in London on 20 February 1986 South Africa and its creditor banks reached an accord, so bringing a technical end to the repayment freeze imposed unilaterally in September 1985. The agreement also stated that the moratorium would end on 31 March 1986. The South Africans were more than satisfied with the agreement, Stals hailing it as a major step on 'the very long road to normality' for the country.³⁸ In brief the terms of the agreement, which Stals described as 'very advantageous', were that South Africa would make a down payment of 5pc or about \$500million, in four phased payments beginning 1 April 1986, on the approximately \$10billion in loans maturing by 1987. Furthermore interest rates would be increased by 1pc on unpaid principal due in this period. The major creditor banks agreed to roll over the unpaid balance for the one year period. Leutwiler was to telex the agreement to the other 233 creditor banks, though he expected no significant change in the plan. A technical committee of twelve major banks would supervise the agreement. (See Table A, Appendix 1)

South Africa had argued in the talks that the 5pc capital repayment was too high. It was also the South African view that part (\$1,5billion) of the estimated \$2,3billion balance of payments surplus for 1986 would be used to pay for debt not covered by the freeze, including an amount to the IMF. Stals had stated that the

extra \$500m would be an 'additional burden' that would leave little over for growth purposes. However, the banks felt that there had been an improvement in the South African economy, and insisted on a mid-term review of the agreement to establish, if in fact, South Africa could pay more.

Despite their reluctance to accept the terms of the agreement, the South Africans were by no means displeased by its implications. Stals went so far as to maintain that the agreement 'paves the way' for new western bank loans to South Africa, and added that South Africa would soon begin the task of further encouraging this process. However, Stal's optimism was not shared by others, including Leutwiler who said that there had been 'no discussion of fresh money', adding that 'the South Africans know that there is no question of new money at this time.'³⁹

Leutwiler also revealed that there had been no direct reference to the South African political situation, but that this had always been in the background. Even the more pressurized US banks, claimed Leutwiler, were more concerned that South Africa continue servicing the debt. 'They don't want to lose their money.'⁴⁰ Significantly too and in order to deflect the politically-based criticisms to the agreement, Leutwiler referred to the agreement as a consensus, rather than as a rescheduling. 'The consensus reached by the banks', he told a news conference following criticisms from anti-apartheid quarters, 'is of a shorter nature...It is an interim arrangement.'⁴¹ The agreement left many issues still unsettled. Were there political conditions implied or not? Would there be new money for the apartheid state? Was it a 'settlement, a quasi-settlement, a non-settlement, or just a broad consensus...'⁴² Although South Africa was by no means out of the woods, the agreement did represent, in our view, an improvement in the nature of the apartheid state's international financial relations. The agreement was far better than the uncertainty of the previous seven months.

Within a month of the agreement, however, a major creditor bank, Barclays PLC, announced that it would not entertain new loan requests from South Africa, or formally reschedule existing debts of just under \$1.2 billion, until South Africa showed it could cut its foreign debt and confirm the scrapping of Apartheid. The announcement came on the eve of a secret meeting of multinational companies and South African businessmen at Leeds Castle in Kent, England, in early March 1986. Barclays chairman Sir Timothy Bevan did not spell out the political changes Barclays envisaged, but cited the release of ANC leader Nelson Mandela as a 'useful first step.'⁴³ Barclays may have been genuinely concerned about political reform in South Africa, but the bank was also coming under enormous pressure from students, churches and local councils in Britain to cut its South African links. Barclays share of the strategic student market had declined from 27pc in 1983 to 17pc in 1985 and the bank had just lost its status as Britain's preeminent bank to National Westminster.⁴⁴ Barclays was also planning a major drive into the US banking market at the time and would not have wanted the burden of its South African links added to the difficulties of successfully penetrating this market. Weighed against these wider considerations, the Barclays decision to reduce or qualify its South African operations and activities, appeared very sensible.

An IMF routine delegation visit to South Africa did little to enhance the prospects of new loans. The Financial Mail observed that with the economic and political situation deteriorating, discussions with the four-person delegation led by Helen Junz of the Netherlands, 'will be miserable....any idea that the IMF will grant additional finance is wishful thinking, and this is not the object of the delegation.'⁴⁵

In the meantime, the debate over the imposition of sanctions, especially in view of the Commonwealth and impending US legislation, intensified and spilled over into the debt repayment negotiations, with the (then) South African Ambassador to the UK Denis Worrall, threatening that the further implementation of

sanctions might force South Africa to consider not paying its foreign debt. He warned of the danger such action, if forced upon South Africa, could pose for the international financial system. Worrall stressed the harmful effect of sanctions on black workers, and on the economies of the neighbouring black states. He also indicated that the 'South African state is strong and determined...South Africa is not on the brink of revolution.'⁴⁶ Finance Week was, however, quick to warn Worrall that such action as renegeing on the debt could easily worsen South Africa's international standing, and damage the prospects for growth. In the meantime, Finance Week pointed out that South Africa's debt agreement ran until end-June 1987 and 'will be honoured whatever happens on the sanctions front in the meantime.'⁴⁷

South Africa had a few weeks earlier on 12 June 1986, imposed a nation-wide State of Emergency to replace the partial State of Emergency which had expired in March of that year. There is little doubt that the imposition of the State of Emergency was at least partly for the benefit of those more conservative European bankers especially the Swiss, whose continuing interests in and warm relations with South Africa were largely dependent on their perception of the political stability of the Apartheid state. For while US banks in particular appeared to require of South Africa a combination of political stability and moderate political reform of apartheid policies, as a precondition of easing up on their demands, the more conservative Swiss bankers, appeared to more narrowly stress the need to restore political stability.

In a departure from tradition, SARB Governor de Kock also emphasised the need to restore political stability and make political reform, as necessary elements of any solution to the country's economic difficulties.⁴⁸ In a speech to the South Africa-British Trade Association on 8 September 1986, Reserve Bank Governor de Kock set out the basic requirements for South Africa to create a lasting solution to its economic difficulties. These were:

1. an appropriate short-term monetary and fiscal policy.
2. the formulation and publication of the state's long-term economic strategy, including such policies as inward industrialisation, export promotion etc.
3. the maintenance of law and order.
4. comprehensive further political and constitutional reform.

These goals must, however, be seen in the context of his closing comment that 'progress on these four fronts will contribute greatly to the normalisation of South Africa's relationships with foreign banks and capital markets...',⁴⁹ a view which clearly illustrates the extent to which South Africa's international financial and debt problems were a determinant of and central to the apartheid state's economic and political agenda in both the short and longer-term. In this context and at the time, the State of Emergency, the state's response to the breakdown of law and order, must be seen as an integral part of its solution to its economic and international financial difficulties.

By the end of 1986 there was still continuing pressure on South Africa's international financial relations, with Malcolm Fraser, the co-chairman of the ill-fated Commonwealth mission to South Africa earlier that year, calling for the denial of access to trade credit, as well as the freezing of all overseas bank accounts held by South African individuals and corporations.⁵⁰ The mood of foreign bankers remained cool, and there was little indication that new loans were coming in from foreign bank sources at this stage. Manfred Schutte of Standard Bank, for example, argued that the fundamental issue that would determine whether South Africa received new loans was political. He did not believe that the rest of the world was satisfied on that score. Whether the banks wanted political progress in the direction of a movement to a non-racial democratic society or rather political order and stability is a moot point and one that we shall again return to.

Estimates of South Africa's foreign debt in the meantime were periodically being revised upwards as rand-dollar-mark exchange values ran against the South African currency. The rand's weakness against third (non-dollar) currencies in particular was largely to blame for this, although by the end of the year the dollar's erosion against third currencies also meant that foreign debt, denominated in dollars, was not much reduced. The Reserve Bank provides scant estimates of the non-dollar proportion of South Africa's debt, and also does not disclose whether or not and in what ways, if at all, any part of the debt is covered against exchange rate fluctuations.⁵¹ However, it is not unlikely that the South African authorities denominated increasing amounts of new debt in non-dollar currencies at some point after 1984, when US pressure on South Africa started to build up in the wake of the township unrest. Although in mid-1985 the greatest portion of debt still remained denominated in dollars, it is significant that at the time 80pc of the debt of the giant parastatal South African Transport Services (previously SARH) were denominated in Swiss francs and Deutsche marks.⁵²

Early in 1987 Stals visited bankers in the US and Europe. There he learnt that some of South Africa's creditor banks would soon be pushing for bigger upfront payments on certain debts, (perhaps as much as 10pc or \$10 billion) when the two sides met to reconsider the February 1986 arrangement, as was then agreed to. This demand was apparently based on the banks' estimates of a \$3 billion surplus on the South African current account in 1987. The Financial Mail speculated that a meeting between the creditor banks and the SCC was postponed from 26/27 January to 9/10 February, and that there were signs that the banks now wanted to go over to a multiple rescheduling arrangement (MYRA).⁵³ The effect of such an arrangement would have been to reduce the original time for the repayment of the debt. However, there was disagreement between the banks over the period which such an arrangement would cover, with UK creditor banks being prepared to settle for a seven year period, but US and French, and surprisingly also German banks talking of three to four

years. Either way as the Financial Mail put it, there was pressure on South Africa to bend more on capital payments.⁵⁴

US banks were apparently keen to clear up the issue of South Africa's debt before their annual general meetings around mid-year, to 'avoid the embarrassment of on-going negotiations with South Africa.'⁵⁵ By the end of January, however, it was still not clear when the two sides would meet, although it looked as if the meeting would only take place after the general elections for the dominant white House of Assembly which, it was expected, the President would announce at the opening of Parliament at the end of January. In the event this did not turn out to be the case. When it was announced on 25 March 1987 that South Africa had struck a three year deal with its creditor banks, on very favourable terms as well compared to the uncertainty of the previous twenty months, the news came as a surprise to many observers.

In terms of the agreement, which runs for three years until 30 June 1990, South Africa will pay a total of 13pc of the outstanding capital amount of debts caught inside the standstill net during this period. This was estimated to amount to \$1.42 billion. South Africa's total debt was believed to be \$23 billion at the time of this agreement. As the Business Day reported, 'the London meeting - held behind a veil of secrecy...and its unexpected success is likely to substantially boost confidence in the [South African] economy, effectively containing the capital haemorrhage.'⁵⁶ Reserve Bank Governor de Kock was delighted with the deal, claiming that 'this is a good deal for [South Africa] and the creditor banks. Both sides are very happy. A three year agreement, as opposed to a one year agreement, is of enormous significance'.⁵⁷ He added, in the dubiously optimistic fashion that has come to characterise South African monetary and financial officials over the years, that South Africa was in his view underborrowed, and made reference to the rising dollar value of exports, the rise in the country's reserves of gold and foreign exchange and continued current account

surplus, as factors that would allow South Africa to meet the terms of the agreement without difficulty.

Finance Minister du Plessis spelt out the details of the agreement. These were:

1. that South Africa will pay all interest due on outstanding loans at a rate roughly 1pc higher the going rate.
2. that the Public Investment Commissioners (PIC) will continue to absorb loans which are not rolled over.
3. foreign creditors will retain the right to cede their claims on debt inside the standstill net to other foreign creditors or persons, under certain conditions.
4. payments on loans inside the net will be made as follows,
 - 4.1 a down payment of 3pc of the debt on 15 July 1987, and a further 2pc in December 1987, making a total for 1987 of \$508 million.
 - 4.2 in 1988, 2pc of the outstanding balance on 15 June of that year and 1,5pc on 15 December, making total of \$400 million.
 - 4.3 in 1989, a further 1,5pc on 15 June and on 15 December, a total of \$346 million.
 - 4.4 a final payment of \$166 million on 15 June 1990.
5. that foreign creditors had the right to convert short-term claims inside the net into long-term claims outside the net. Claims converted in this way would be repayable over 10 years, in a prescribed manner.⁵⁸

Business Day noted that the bankers were initially reluctant to commit themselves to a three year agreement, but that 'confronted by a Third World debt problem that is threatening to run off the rails, international bankers, particularly those in the US, decided to knuckle under to the inevitable criticism which would follow a longer term agreement.'⁵⁹

Significantly, neither this nor the previous February 1986 interim agreement, compelled creditors to enforce repayments inside the

net, and given the attractively higher rates of interest, (1pc to 1,25pc above LIBOR) banks would be tempted to roll-over even these payments. As Hirsch points out, by October 1987, the German Deutsche Bank, unlike most US and UK banks, had received no repayments at all, obviously choosing not to enforce their rights under the agreements.⁶⁰ Furthermore when South Africa announced its unilateral debt moratorium in mid-1985, it excluded trade credits from the standstill net; and when the banks decided earlier to end loans to South Africa, the declaration specifically excluded trade credits from the ban. In other words the important category of trade credits, which was critical in facilitating external trade, continued to be made available to South Africa.

(3) THE AFTERMATH OF RESCEHDULING: APRIL 1987-DECEMBER 1987

This section examines the response to the second interim debt arrangement as well as developments which followed in its wake. Criticisms of the political implications of the deal, ie its soft approach to the apartheid state were not the only ones which followed the announcement of the debt rescehduling. Cees Bruggemans, a South African-based economic analyst, pointed out that the agreement was no cause for fanfare, noting that the interest South Africa was required to pay was still higher than that paid by the world's biggest debtors, which, he argued, reflected overseas perceptions of the South African political and economic situation.⁶¹ Opposition finance spokesperson Harry Schwarz, believed that the government did not deserve any credit for the agreement as the crisis was of their making in the first place and further noted that a significant portion of South Africa's debt was still not part of the agreement, and that some of the loans were in Deutche marks and Swiss francs, currencies which had hardened against the rand in recent months. The country was furthermore still not attracting new bank loans, he claimed.⁶²

South Africa's enthusiasm for paying the debt in this way and its determination to conform to the rules of financial orthodoxy in settling the problem, in order to return to normalcy and respectability in the international financial world, was out of step with other debtor nations,⁶³ where the tendency was to write off large sections of the debt or engage in large scale debt-equity swaps or some other scheme with the IMF/World Bank. In other words, other countries were arguing for a change in the rules for addressing the international debt crisis. Brazil had only a month before the South African deal (February 1987) declared its decision (short-lived as it turned out) to suspend interest payments on its \$109 billion debt. In addition Brazil, Chile and the Phillipines had resorted to the use of debt-equity swaps as a partial approach to their debt problems. That is in exchange for debt relief the debtor hands over the ownership of a tangible asset, the basic swap involving shares of local companies instead of debt payments.⁶⁴ In April 1988, Stals announced that South Africa had come to a debt-equity swap arrangement with the creditor banks. According to the scheme banks could switch debt into the financial rand, which could then be used for equity investment. The conversion into the financial rand would be made at a discount of some 30pc. Banks showed little interest in the scheme, preferring in the more stable political climate to hang in rather than take such a loss.⁶⁵ By April 1988, no more than \$10m had been moved in this way.⁶⁶ The February 1987 agreement made provision for one other scheme. It allowed for the conversion of debt inside the net to longer term debt outside the net. By the beginning of October 1987 about R1 billion of debt had been converted in this way.⁶⁷

Perhaps South Africa's decision to follow a fairly orthodox way of dealing with its debt crisis lies in the fact that, as MacEwan⁶⁸ and others have shown for some Latin American countries, the debt crisis serves the interests of the ruling class in some fairly important ways. In South Africa for example, the tough austerity measures that were justified on the grounds of the country's international financial position, and the need to return to

respectability within the world community of nations, served to create the conditions, certainly the atmosphere, under which a significant restructuring of economic relations, the move towards the long term economic strategies of inward industrialisation, privatisation and deregulation was being introduced, debated and planned.

It may also be argued that the South African monetary authorities were well aware that the important political dimension of the country's debt crisis was something that was not likely to be addressed in the near future, ie. that some 'unacceptably' close variant of apartheid was going to be the order of the day for some time to come, and that given that their only hope to return to some respectability in the international financial market was through following the fairly orthodox rescheduling route, admittedly after a rather 'naughty' exercise in declaring a unilateral standstill in September 1985.

Ironically, two days after the deal between South Africa and its creditor banks was announced, the Institutional Investor⁶⁹ reported that South Africa had fallen from 29th place in September 1984 to 57th place in 1987, in the list of the world's most creditworthy nations. (See Table B, Appendix 1) South Africa's plunge was the biggest recorded in the survey of that year. This assessment is, however, unlikely to have taken into account the latest agreement, which whatever the criticisms may be, represented an improvement in the country's international financial standing. As the Independent⁷⁰ commented South Africa's status as a defaulter has been officially blurred by a medium term, carefully structured plan. That was an improvement, by any standard, over its renegade debtor status of two years ago.

By June 1987 Auditor-General de Loor, proudly announced that European banks were 'looking more benevolently at [South Africa] as a borrower.'⁷¹ He declared that these banks were once again prepared to consider extending general credit to South Africa to

finance further projects of a capital nature. There is some evidence that despite the debt crisis, some small amounts of new finance has entered South Africa, though under conditions of great secrecy.⁷² As early as 1986 it was announced that ESKOM was looking for some \$120m abroad and that it was not unlikely to have any problems raising this sum.⁷³ Some small banks in Switzerland, Germany and the Benelux countries were reported in 1987 to be involved in raising finance for South Africa through complex and hidden deals.⁷⁴ But even more revealing was the apparent attitude of the banks to the use to which funds lodged with the PIC were being used by the apartheid state. A substantial portion of the state's deficit spending in 1987 would, the Business Day⁷⁵ claimed, be financed by funds placed with the PIC. In normal circumstances such funds would be used to service the country's foreign debt, the PIC being used as the investment link between the debtor and creditor.

That this is now not being done, and that a substantial amount is to be used to finance increases in security and defence expenditure, is unlikely to stir any reaction overseas, officials confidently predicted ..Croeser [Chief Executive, Policy, in the Finance Department] maintained that the creditor banks had been fully briefed as to what use the PIC funds were being put to and no adverse reaction had been experienced.⁷⁶

This did indeed appear to be a significant turnaround from the previous public pronouncements of the banks. That they had no problems with the apartheid state's spending of these funds for the most sensitive and controversial departments of defence and security, does indeed appear to indicate clear support for the agenda of the apartheid state, ie at 'worst' the maintenance of the status quo, at 'best' the moderate reform agenda of the government. In either case the effect would have been to set back even further the prospects of a black majority government. We would argue however, that this represents not so much a change in their position, as the outcome of a logical (and for them, correct) reassessment of the risk analysis on their South African exposure mainly, though not exclusively in the light of the changed

political environment of 1987 as compared to that of 1985. The failure of the economy to revive appreciably obviously affected their decisions to pump in noticeable amounts of new loans, and the high rank that the apartheid state held in the league of morally reprehensible regimes, made it difficult for them to publicly change their stance. However, both the easy terms of the March agreement, and their subsequent actions are indicative of the banks' real considerations on matters such as these. These considerations place a low value on questions which touch on issues of justice, morality, the abolition of racial, gender or other oppression.

What had changed was the political environment. Political stability was restored, de Kock's prerequisite of 'law and order' had been sufficiently realised and some moderate reform such as the abolition of the pass laws had been effected. Political organisations and the political activities of the progressive trade unions had been heavily restricted. The apartheid state had restored a harsh and brutally imposed state of stability into the political landscape. It had displayed the power to survive. It had (for a while at least) delayed the transition to a non-racial democratic South Africa, and proved wrong those who in 1985 saw or predicted its imminent demise. As the Wall Street Journal noted

[i]n mid 1986, the government imposed a state of emergency, rounded up its black opponents and slapped restrictions on the media. Unrest disappeared from television, and slowly, the perception spread that revolution wasn't around the corner and the government was in control.⁷⁷

The recognition of these changes, is in our view the real reason behind the apparent change in the attitude of the creditor banks towards the apartheid state. They could not, because it would damage their potential to recover their loans, do more to affect political change. As one commentator observed,⁷⁸ banks are not in the business of setting political agendas. They are in the business of making loans to reliable, creditworthy and politically stable customers. "Like James Bond, banks never say, 'Never again'. While

they might say no to Pretoria now they would be prepared to reassess the situation in a year (he wrote in early 1986) if events made South Africa a better prospective client."⁷⁹

Although the suppression of political resistance (some would maintain of the 'insurrectionary' climate ⁸⁰) was, we would argue, the main reason underpinning the actions of the banks in regard to the rescheduling of South Africa's debts and their subsequent actions, this is not to say that it was the only consideration. Of the other factors perhaps the most important was the fact that South Africa achieved a successful, albeit painful, adjustment in its balance of payments. De Kock was apparently told by bankers that 'with the exception of Rumania, there is not another country in the world that comes close to what South Africa has done', in effecting the 'miraculous' adjustment on its balance of payments.⁸¹ The attitude of the international banks towards South Africa, was also affected by some degree of concern for the effects of a possible South African default on the stability of the international financial system, although given the small amounts here this could only have been a fear of triggering off potentially more damaging defaults elsewhere.

The decision to exclude the 1982 IMF loan repayments from the net, ie to continue repaying the loan, also appears to have been important to bankers. Given the nature of the relationship between private international banks and the IMF, South Africa appears to have recognised the importance of not aggravating its already abnormal relationship with the Fund. By the end of 1987 South Africa had paid back the loan in its entirety. The 1987 IMF mission to South Africa appears to have been pleased by the country's efforts, although the mission differed from South Africa's monetary authorities on certain aspects of the existing economic policy package, wanting for example, to see higher interest rates.⁸²

(4) CONCLUSION

We would argue that the actions of banks in August 1985 were based on the normal criteria of country risk analysis ie political stability, economic performance, future growth prospects and the like. Political strategies which rely on the belief that banks were genuinely concerned to make a positive contribution (as opposed to the self-interested gesture of August 1985) to the South African struggle by seriously and steadfastly posing the alternative of a non-racial democracy in this country as a precondition for the restoration of normal international financial relations, would, in our view, be based on a fundamentally misconceived and romantic understanding of the real dynamics of international banks. The same can no doubt be said for multinational corporations in South Africa. When they coincide with other strategies and in specific political conjunctures, financial sanctions may well prove to be a critical element in campaigns to bring about political change in countries such as South Africa. These possibilities clearly existed in 1984-1986, and the actions of the banks in regard to rescheduling South Africa's debts might have been decisive then, had they been firm in demanding political change. But for reasons we have set out above they were not.

By 1987 the political conjuncture made it less probable that banks would insist on more dramatic political change towards a non-racial, democratic South Africa and less likely that any watered-down form of bank pressure or intervention would in fact succeed. Gelb has recently argued on the general question of the timing and appropriateness of sanctions against the apartheid state that

[t]he South African state is not the Iranian or Phillipine state: it will take more than US pressure, even from comprehensive sanctions, to bring it down. To break with this approach - to redefine the meaning of sanctions 'working' - requires locating sanctions very explicitly within the context of the wider liberation struggle. This means understanding sanctions in relation to the existing balance of forces, and the overall direction of strategy. What is crucial here is that this is always shifting.⁸³

This chapter concludes with brief comments on two further issues. It will first look at the immediate future prospects for South Africa in the international financial markets, based on some recent international developments and on South Africa's relations with banks since the beginning of 1988. Secondly it will comment on the effects of the recent changes in the attitude of creditor banks on the economy and particularly on the implications these have for the capacity of the economy to emerge from its crisis.

(4.1) Recent Developments and Future Prospects

Changes in the political environment do not necessarily or automatically mean that South Africa can now expect large and regular quantities of new foreign loans in the years ahead. Whether this happens or not will depend on a variety of factors. Developments and innovations in the international financial markets as a whole, in the state of the world economy, the balance of economic and political power between North and South and between East and West as well as the more obvious relative economic performances of potential borrowers are in the broadest sense, central to this question. Thus for example, it is arguable whether banks and multinational companies will automatically resume their activities here, if and when both political and economic factors become more favourable. New opportunities have opened up elsewhere in the 1970s and 1980s and the relative attractiveness of investing and lending here may have changed for some discrete future period. In short, changes in any of these wider arenas may, in addition to local economic and political developments, help to further ease or strain the relationships between South Africa and its creditor banks in future.

Let us look at some examples by way of illustrating South Africa's future prospects in the international capital market. South Africa had in the period 1970-1985 relied mainly on US and European banks to assist it in obtaining loans and in managing and underwriting its bond issues. However, the emergence of Japanese banks as major

lenders and bond managers in the 1980s introduces a change which may be of no small importance to South Africa in the years ahead. Japanese banks eclipsed US banks in leadership for the first time in 1986 and were responsible for 55pc of the increase in international bank activity between 1986 and 1987.⁸⁴ There are also major new banking centres in South Korea, Hong Kong and Taiwan, countries with which the apartheid state has maintained good economic relations. Thus any greater predisposition on the part of these banks to lend to South Africa, arising for example out of the absence of the same intense anti-apartheid pressure which faces the US, may open up new and not inconsiderable sources of international credit.

There have already been some changes along these lines since early 1988. By this time there was a revival of international interest in the Johannesburg Stock Exchange, more European banks apparently offered trade credits to South African companies again, and there is even evidence of some foreign direct investment. In early 1988 the Sunday Times reported that fifty-five companies, of whom forty-two were foreign, intended to invest more than R66m in South Africa in the following year by setting up factories in decentralised areas. The preponderance of Far Eastern (and even Indian) companies among this number is striking. Twenty-one were from Taiwan, eleven from Hong Kong and two from India. Four companies were Israeli and only four more were from the EEC, a figure suggestive of the relative decline from the region that was once South Africa's major source of direct foreign investment. These companies were involved in production in a wide variety of goods, including the manufacture of gold chains, leather and plastic products, sports shoes, office furniture, clothing, power tools, textiles, and the processing of minerals and semi-precious stones.⁸⁵ In addition to these direct investment and some amounts of bank loans mentioned earlier in this discussion, some companies made equity investments in South Africa in 1987. The Schweizerische Geseleschaft fur Kapitalanlagen bought the Bata Shoe Company in South Africa after its Canadian owners were put under pressure to disinvest.⁸⁶

By early 1989 there was further evidence of an improvement in South Africa's relations with private international banks. This is clear from the following examples. First, in March, the South African government negotiated a R200m loan with an unnamed bank, reputedly to have been Swiss. Although the amount was small in relation to South Africa's total debt, it created optimism among financial officials and enabled them to budget for new foreign loans for the first time in three years.⁸⁷ Secondly, members of the creditor banks' technical committee were reported in June 1989 as saying that they were 'relatively powerless to influence whatever the South African authorities decide to offer' when the present debt agreement comes to an end in June 1990.⁸⁸

Thirdly, two of South Africa's US creditor banks, Citibank and Manufacturers Hanover, came to an agreement with South Africa in April 1988 not to call in their loans of \$670m and \$230m when the February 1987 interim agreement on debt rescheduling expired in mid-1990. They agreed to a conversion of this debt inside the net into long-term loans outside the net. This move, especially if it is followed by other banks, clearly eases the pressure on South Africa's external finances, and reduces its potential value as a political weapon. Anti-apartheid activists hoped to persuade the banks to reschedule South Africa's debt on condition the country makes some constitutional changes. Significantly, and indicative of the very changed political environment of 1989, this call was less dramatic than their earlier demand that the South African government resign as a precondition for rescheduling. However, in a recently published book commissioned by the Australian government, Ovendon and Cole argue (on the contrary) that the conversion option taken by some banks signal that they were indicating 'once and for all that they were done with South Africa', and that they would 'have no more to do with the country.'⁸⁹ Ovendon and Cole make this generalisation on the basis of an interview with one official of an unnamed bank. This assessment ignores the historical evidence of the wide variations (inter-country and other) in the responses of private international

banks to all aspects of their relationship with South Africa in the period since 1970. Furthermore their conclusion is based on banks' perceived moral objections to apartheid and ignores wider economic and other forms of political influences, an interpretation we have already commented upon critically. We would argue that private international banks are likely to continually assess their attitude to and exposure in South Africa as well as their stance on rescheduling, even in the period before apartheid is finally abolished, as their differential responses in the fluctuating economic and political environment of 1984-1989 demonstrates. This on-going assessment is likely to take account both changing global and domestic (South African) factors, and not only their 'opposition' to the apartheid regime, important as this factor maybe for some banks in some countries.

Finally, in Zurich in April, the British anti-apartheid Anglican Archbishop Trevor Huddleston was jeered at a shareholders' meeting of the Union Bank of Switzerland when he called on the bank to stop doing business with the apartheid state. He was interrupted by the bank's Chairman Nikolas Senn, who asked him not 'to attack a government with which we have normal diplomatic relations.'⁹⁰

Although the case for foreign capital inflows to South Africa continues to be made and new loans are welcomed by the government and most sections of business in South Africa, it has been claimed that the country's need for loan capital is not as high or immediately urgent as it was in the 1970s. Jan Lombard, Deputy-Governor of the Reserve Bank observed in late 1987 that domestic savings were in 'good condition and exceed likely investment needs by a long shot.' He pointed out that ESKOM for one could comfortably finance its projects from the domestic market. 'By and large, all the large utilities have put a great deal of money into expansion over the last decade or so with the result that South Africa's present day infrastructure is pretty good for a country in our state of development.'⁹¹ Lombard failed to mention that extensions to some ESKOM plants have been put on ice, further

reducing the need for loans of the magnitude required in the 1970s. If Lombard's calculations are to be believed, it would imply, ironically that the massive amounts of foreign bank loans which were made available to the state and parastatals in the 1970s, have in fact contributed to cushioning somewhat the potential damage to the economy of restricting such loan inflows in the second half of the 1980s!

(4.2) The Economic Crisis and Restructuring

At the end of 1985 South Africa ranked among the world's 'leading' debtor nations.⁹² The analysis in this Chapter has attempted to show that, contrary to common wisdom in 1985, South Africa's international financial relations improved somewhat since that time. It has sought to provide explanations, in both economic and political arenas, for this turn around or adjustment. This analysis is not, however, to be interpreted as arguing that the South African economy, and especially its international financial relations were, by mid-1989, no longer crisis-ridden. Although the balance of payments had moved into surplus, some foreign loans had been received and some debts repaid, the fundamental problems of slow growth, high rates of unemployment, weak investment demand, uncertainty and lack of confidence continued to exist. These conditions have been compounded by the erratic movement of the gold price and a weak domestic currency.

Given the uncertain state of the world economy, the continuing difficulties in co-ordinating international trade and exchange rate policies, the structural changes in the composition of world trade (including the move away from metals and minerals), the continuing freeze on IMF assistance and on normal flows of private bank loans to South Africa, and the probability that sanctions would in time begin to have a greater impact on South African exports, the likelihood of declining or unstable foreign exchange reserves and even tighter domestic monetary, fiscal and exchange rate policy is ever present. These global and domestic factors are more than

likely to dominate debate about appropriate economic policies and strategies in the years ahead. For they place distinct limits on the capacity of the South African economy to sustain a vigorous growth path. Even de Kock admitted, 'we won't shatter any growth records. We won't do a Korea or Taiwan. But we have made an adjustment and recovery...Businessmen realise that without [international capital], the economy can't be turned loose. Minibooms will have to do.'⁹³

We have argued earlier that the rising gold price, private international capital flows and consumer-led growth of the early 1980s presented a false picture of prosperity to many South Africans. The collapse of the rand, the restrictions on new loans, the forced debt repayments, the sanctions and disinvestment campaign, and the continuing upheaval in the black townships, all contributed to stripping away these layers of cosmetic prosperity for a while. Similarly the 'adjustment and recovery' that de Kock talked about should not blind us to the fundamental crisis that the South African economy still faces.

However, as Gelb has argued not all crises within capitalism are 'terminal'.⁹⁴ Fundamental restructuring of a social formation in crisis need not imply a movement away from capitalist relations of production. Such a restructuring of the South African political economy may be traced back to the late 1970s, in the 'reform phase' which followed the Soweto uprising and the work of the de Kock, Kleu, Wiehahn and Riekert Commissions. The imperative for further and even more fundamental restructuring was clear by mid-1986 at the time the full state of emergency was imposed. Though still fraught with contradictions, a simultaneous process of economic restructuring, based on export promotion and diversification, inward industrialisation, deregulation, privatisation, township upgrading, and social reform based on de-racialisation of some aspects of political and social life, coupled with re-racialisation and authoritarianism in other areas (the tricameral parliament, banning of opposition political organisations) was gradually being

set in place by mid-1986.⁹⁵ In short, an attempt was being made to transform the conditions and structures of accumulation that underpinned the rapid growth of the 1960s, ie apartheid and import-substitution industrialisation, in an effort to restore the foundations for capitalist accumulation in the national and international circumstances of the 1980s and beyond. This process was by no means unproblematic. And it remained contradictory. But by the end of 1987 few doubted that it was happening.

ENDNOTES

1. Minister of Finance, Statement on the Four month Standstill in the repayment of Foreign debt, 01.09.85
2. See Chapter 5, and Padayachee, 1988.
3. See for example Lipietz, 1987, p165; Noel, 1987, p329.
4. Mathison and Hollidge, 1986, p1/2
5. Wall Street Journal, 05.04.88
6. South African Reserve Bank, Quarterly Bulletin, December 1986, S-73
7. Financial Mail, 30.08.85
8. Minister of Finance, Statement on the Four month Standstill in the repayment of Foreign debt, 01.09.85
9. Euromoney, December 1986
10. Sampson, 1987, p35
11. Leadership, Vol 5, No 1, 1986
12. Sampson, 1987, p35
13. Euromoney, December 1985, p73
14. Euromoney, December 1985, p73
15. Minister of Finance, Statement on the Four month Standstill in the repayment of Foreign debt, 01.09.85
16. Euromoney, December 1985, p75
17. Hirsch, 1988, p10
18. Euromoney, December 1985, p75
19. Euromoney, December 1985, p75
20. Leadership Vol 5, No 1, 1986
21. Leadership, Vol5, No 1, 1986
22. Sampson, 1987, p37
23. Quoted in Sampson, 1987, p38
24. Financial Mail, 11.10.85

25. Sampson, 1987, p38
26. Financial Mail, 25.10.85
27. Ovendon and Cole, 1989, p97
28. Financial Mail, 08.11.85
29. Financial Mail, 08.11.85
30. Financial Mail, 25.10.85
31. Financial Mail, 22.10.85
32. Leadership, Vol 5, No 1, 1986
33. Leadership, Vol 5, No 1, 1986
34. Leadership, Vol 5, No 1, 1986
35. Financial Mail, 17.01.86
36. Leadership, Vol 5, No 1, 1986
37. Financial Mail, 17.01.86
38. Washington Post, 21.07.86
39. Washington Post, 21.07.86
40. Washington Post, 21.07.86
41. Washington Post, 21.07.86
42. Financial Mail, 28.02.86
43. Natal Mercury, 07.03.86
44. Hirsch, 1988, p15
45. Financial Mail, 23.05.86
46. Natal Mercury, 01.07.86
47. Finance Week, 10.07.86
48. De Kock, until his death in August 1989, become more outspoken about the need for both political stability and economic and political reform as a precondition to or as a complementary strategy to economic growth and change.
49. de Kock, September 1986
50. Sunday Times, 10.08.86

51. Sunday Times, 21.12.86
52. Hirsch, 1988, p28
53. Financial Mail, 30.01.87
54. Financial Mail, 30.01.87
55. Financial Mail, 30.01.87
56. Business Day, 25.03.87
57. Business Day, 25.03.87
58. Business Day, 25.03.87
59. Business Day, 25.03.87
60. Hirsch, 1988, p27
61. Daily News, 25.03.87
62. Natal Mercury, 26.03.86
63. Weekly Mail, 25.09.87, commentary by Duncan Innes
64. Curtis, 1987
65. Their response to such a scheme may have been very different had it been possible in 1985-6.
66. Euromoney, April 1988, Special Supplement on South Africa
67. Daily News. 01.10.87
68. MacEwan, 1986
69. Quoted in Business Day, 27.03.87
70. Quoted in Daily News, 25.03.87
71. Business Day, 08.06.87
72. See for example, Euromoney, April 1988, Supplement on South African Banking.
73. Financial Mail, 14.02.1986
74. Hirsch, 1988, p27 quoting ICABA Newsletter, No 5, Winter 1987/8
75. Business Day, 08.06.87
76. Business Day, 08.06.87

77. Wall Street Journal, 05.04.88
78. Natal Mercury, 21.02.86, commentary by John Battersley
79. Natal Mercury, 21.02.86
80. Some would label the political mood as 'insurrectionary'. For another interpretation of the uprising of 1984-86 see Morris and Padayachee, 1988.
81. Financial Mail, 09.10.87
82. Financial Mail, 09.10.87
83. Gelb, 1988, p73
84. Flight and Lee-Swan, 1988, p157
85. Sunday Times, 28.02.88
86. Hirsch, 1988
87. Business Day, 17.03.89
88. Ovendon and Cole, 1989, p97
89. Ovendon and Cole, 1989, p96
90. Natal Mercury, 14.04.89
91. Financial Mail, 09.10.87
92. Daily News, 01.10.87
93. Wall Street Journal, 05.04.88
94. Gelb S, 1987
95. See Morris and Padayachee, 1988.

CHAPTER 7
CONCLUSION

We argued at the end of Chapter 1 that the variable character of a country's relations with the institutions of international finance, the underlying international and domestic explanations and bases of these changes and the capacity of a country, especially one in the developing world, both to profit from this relationship as well as to withstand the pressures and consequences arising out of its trade, technology and investment links with the rest of the world are better understood and studied, within the theoretical framework of regulation theory. For regulation theory is premised upon explanations which explore the interactions between changing international and domestic regimes of accumulation and modes of regulation, in other words, explanations which range over the whole spectrum of institutional, economic, political and ideological forces, domestically, regionally and internationally. Such an approach allows one the scope to explain better the vicissitudes in a country's relations with the world economy, or of aspects of such relations, than either the ascriptive and sterile formulations of modernisation theory or (notwithstanding its obvious merits over modernisation theory) the stultifying and closed formulations of most versions of dependency.

This thesis has utilised some of the central propositions of regulation theory. Yet it is not argued that regulation theory as yet provides all the answers to a proper and fuller understanding of a country's insertion into the world economy. Hence, only the conceptual tools, organising principles and language of regulation theory informs this study. Despite the ongoing debate over its value as a theoretical paradigm, many have found it a more than useful framework for analysis. While remaining critical of some aspects of regulation theory, Noel, for example, argues that the regulation approach is more satisfying than most rival explanations as it "portrays systemic changes in a truly dynamic perspective.

Regulationists have contributed...significantly to the building of a 'theoretically informed understanding of time-changing empirical patterns.'" Noel argues that the understanding of changes over time which regulation theory provides is probably its major contribution.¹ This is especially apparent in our examination of South Africa's international financial relations since the early 1970s, a time of crisis and change both in the regulatory institutions, rules and mechanisms of the international economy and in the South African regime of accumulation and mode of regulation.

Modernisation and dependency approaches would be hard pressed to adequately locate the changing nature of South Africa's relations with the international financial community in the 1970s and 1980s, for the relationship was neither uniformly beneficial nor damaging as the crisis which characterised these relations in the mid-1970s and mid-1980s illustrate. Neither as Corbridge has pointed out do these approaches 'examine the way in which changes in this interdependent world system [open up] new opportunities for (as well as constraints on) national economic and political action.'² Let us take two examples to illustrate these problems. First, the dependency-influenced arguments of Payer, Hayter and others characterise global financial institutions such as the IMF, as being narrowly 'designed to solve the problems of the rich countries', through means which necessarily imply a distortion and suppression of the 'autonomous' development strategies and economic plans and policies of countries in the Third World.³ While this view may be true in many cases, this thesis demonstrates that some countries such as South Africa were able for some time to pursue a relationship with the IMF which for a variety of economic and political reasons was, in contrast, more mutually beneficial and less asymmetrically distorted.

Second, whereas dependency theory would see in South Africa's increasing recourse to foreign bank loans in the early to mid-1970s only the potential for increased vulnerability to external pressure, this thesis attempts to show that the South African state

was able to use this medium to long-term foreign finance to build up an impressive infrastructural and strategic foundation to its economy. This strategy was carried out in terms of the state's assumption, incorrect as it turned out, that the gold price would remain above \$200 an ounce and an awareness of the dangers of economic sanctions. Clearly a new form of vulnerability to politically-inspired financial sanctions emerged out of this which the state did not anticipate at the time, but the economy in the meantime had also developed important strengths and a greater resilience to international economic pressure. This greater balance in the assessment of the implications (both benefits and problems) of a country's links with the international financial community, has been a central characteristic in the work of regulation theorists.⁴ This concluding chapter attempts, in summarising the main propositions and implications which flow from this thesis, to capture this greater sense of balance in understanding the changing nature and character of South Africa's international financial relations in the period 1970-1987.

By mid-1985, at the time private international banks decided to call in their existing loans and restrict most new forms of credit, the South African economic and political situation could best be described as being in crisis. (These issues were discussed fully in Chapter 3.) However, the financial restrictions imposed by the banks, and by the IMF in 1983, coupled with limited trade sanctions, combined to produce not the sudden apocalyptic collapse of the productive and infrastructural base of the economy which pro-sanctions advocates predicted would occur soon thereafter, so precipitating the ending of apartheid, but rather a further debilitating decline in the performance and prospects of the economy, which had already slipped into crisis by the mid-1970s.

Part of the reason for this lies in the difficulty of policing trade sanctions, in the fact that vital trade credits were largely exempt from the banks' restrictions, that the banks backed off somewhat after the 'threat' of black majority rule had receded in

the wake of state repression, and that after two years the apartheid state began to receive small, though irregular amounts of loans from some foreign banks.

Partly too, this was due to the nature of the South African economy. The country possesses a productive and infrastructural base which has over decades going back to the 1920s, been built up with a combination of state support, local private sector initiative and creativity, foreign investment acting in a spirit of partnership with indigenous capital, and (between 1970-1984) with foreign bank loans utilised under state direction and policy, at a time when foreign loans were readily available and foreign banks cared little about the ultimate use to which their funds were used.

However, this is not to deny that the specific relations South Africa developed with the IMF and banks in the period after 1970 have brought about a new kind of vulnerability to political pressure, especially through the influence of the US. The financial restrictions imposed by the IMF and banks and the ever-present threat to foreign exchange reserves have constrained South Africa's ability to successfully and quickly restructure its economy and to develop the kind of accumulation strategy or growth model which is essential to allow it to escape the limits of its now crisis-ridden post-war accumulation strategy. Such pressure may intensify, and given the correct configuration of socio-political circumstances within South Africa, it may increase South Africa's economic difficulties even more appreciably.

The South African economy remains in crisis and this factor alone presently discourages an adequate inflow of foreign bank loans, credit and capital. Neither growth nor investment nor employment have been adequately regenerated, despite the hesitant, though unmistakable, efforts at economic and political restructuring which can be traced to the late 1970s. How long the prevailing crisis will drag on for will depend upon economic and political

developments within South Africa and the effects of political reform on the attitude of western governments, bankers, the IMF and others towards South Africa. In other words it will depend upon the nature, form and pace with which apartheid is dismantled as well as on the capacity which exists to replace the post-war ISI-based regime of accumulation with a new growth model, one which would facilitate increased output, productivity and employment and be internationally competitive as well.

One thing that is clear four years after the dramatic Chase Manhattan Bank decision of late July 1985, is that the mid-1980s crisis in South Africa's international financial relations is already deeper and more prolonged than its mid-1970s problems. We would offer the following explanations for this difference in the conditions of the two periods of crisis in South Africa's international financial relations. This comparative analysis also serves to bring together in succinct and balanced form the main propositions and arguments of this thesis.

First, the nature of the break in South Africa's relations with the IMF and banks in the 1980s is of an entirely different character and order to that of the mid-1970s. South Africa continued to receive financial assistance from the IMF in the years after the balance of payments and political tensions and instability of 1975/6. Bondholders became circumspect about their South African holdings and disposed of these wherever possible and the bond market was closed to South Africa for a few years, but most US and European banks, simply tightened up on some aspects of the terms upon which they lent to South Africa, as we have noted already in Chapter 5.

It is now over four years since the dramatic events of mid-1985, and neither the IMF, which restricted assistance to South Africa in 1983, nor most banks have resumed normal and regular lending to South Africa, even under tightened conditions. The exception remains trade credit, which continues to be made available to the

apartheid state. Loans from some Far Eastern, Swiss and German banks remain small, though their availability is not without long-term significance to South Africa's future international financial relations. Thus unlike the 1970s, the IMF and most banks have cut new loans and called in existing loans rather than narrowly changing the terms of their lending. Despite the debt rescheduling agreements which have given South Africa some breathing space, the effects of the mid-1980s crisis have already been more damaging to South Africa's prospects of successfully transforming its regime of accumulation and mode of regulation in order to emerge from its present non-reproductive cyclical downswing. This is most apparent in the pressure which the absence of regular capital inflows continues to exert on foreign exchange reserves. Certain accumulation strategies are constrained because of the danger that they will run down scarce foreign reserves.

Secondly, conditions in the international economy since the mid-1980s have changed in ways which do not favour South Africa any longer. Renewed growth and lower rates of inflation in most advanced industrialised countries, growing intra-European economic co-operation, the likelihood of an increased demand for international bank and IMF credit from 'reformist' East European states such as Poland and Hungary, claims of limited IMF funds, the emergence of new and profitable centres of investment in the newly industrialising countries, and the decline in net private bank lending after 1985, all suggest that South Africa will not benefit from the easy access to bank credit which characterised the years of the late 1970s and early 1980s. Then slow growth and high rates of inflation in the industrialised countries resulted in a flow of loans to 'middle income developing countries' such as South Africa and Brazil, as the urgent task of recycling surplus petro-dollars had to be effected. Since the mid-1980s the threat to international financial stability arising out of the debt crisis has made banks, and to some extent even the IMF and World Bank, extremely cautious about extending new loans to already indebted countries.

Thirdly, South Africa's strategic role as a regional power, ensuring economic and political stability in southern Africa, has been eroded by recent events. We have argued that especially in the post-war world economy, South Africa's regional role in support of the West, was an important factor in guaranteeing the apartheid state the financial and political support of the western industrialised countries which dominate international financial agencies. Thus for example, South Africa remained an important element in the IMF's plans for southern African economic and infrastructural development. However, the longer the country is denied full participation in, and the financial support of international financial agencies such as the IMF, and as long as it remains politically and diplomatically isolated, the less can it be expected to continue to play its previous effective role in the subcontinent.

Furthermore in the passage of time, this role may become more dispensable, especially in the new era of co-operation which has come to characterise East-West approaches to the resolution of regional instability and the promotion of regional political and economic development. In the mid-1970s the country was still viewed in the West as being central to the settlement of the Rhodesian question, and in the (unsuccessful) attempt to impose a western-backed government in Angola. In the mid-1980s in contrast, it is the apartheid state itself which is under pressure from some Western governments over the question of its own internal policies, Namibian independence and its support for Unita in Angola and the MNR in Mocambique, and there is some evidence of western support for 'rival' regional initiatives such as SADCC.⁵ South Africa's importance to the West, as one of only a few suppliers of strategic minerals has also been on the decline. The need to support South Africa in forums such as the IMF for these strategic reasons will therefore become less important. The US, for example has recently taken legislative steps to reduce its 'dependency on politically volatile or otherwise unreliable countries for...critical minerals'

such as chromite and manganese ore and the platinum group of metals. South Africa is specifically mentioned among this group of countries.⁶

Fourthly, while South Africa adjusted its balance of payments to the new conditions of its international financial relations, in the years immediately after 1985, changing around the deficit in the balance of payments though the imposition of tight monetary and fiscal policy, the balance of payments adjustment is far from being a stable one and the economy itself remains in crisis. Economic growth is constrained by the fact that the country has become a net capital exporter and has to adopt policies which would protect rather than run down foreign exchange reserves. Growth, inflation, employment, investment and profitability have been severely affected in the post-1981 cyclical downswing, as we have argued in some detail in Chapter 3, and in this period it has become generally accepted that the post-war model of import-substitution industrialisation on the basis of a racially-determined mode of regulating the production-consumption relation has come to an end. Despite some efforts at restructuring the economic, political and institutional bases for accumulation, via strategies such as inward industrialisation, privatisation and increased social and infrastructural expenditure in the black townships, the prospects of shaking off the economic crisis remain uncertain. Additionally, South Africa's comparative advantages in gold, mineral and other primary exports in the new economic circumstances of the 1980s and 1990s appear less important than they did in the international economic environment of the 1950s, 1960s and 1970s. While the state intervened creatively in the 1960s and 1970s to set up an impressive infrastructural and strategic foundation, it did not intervene actively in a developmental sense, in support of the growth of an internationally competitive manufacturing sector, which would have ensured a more diversified and sounder economic basis for confronting the problems of being a player in the post-1973 international economy.⁷

Finally, though severely blunted by the imposition of the state of emergency in June 1986, internal resistance to the South African government's racial policies has not been entirely suppressed. And though less strident and dramatic than in the period 1984-86, the international campaign to isolate the country continues. If anything more attention has been paid in this campaign to make the ban on South Africa's international financial links more effective. There have been greater efforts by church and other anti-apartheid organisations at persuading banks and import-export agencies to cut off trade credits to South Africa, and at persuading South Africa's creditor banks to demand political reform as a precondition to the extension of the debt rescheduling agreement which expires in mid-1990. In these prevailing internal and international circumstances, and in the absence of political reform sufficient to satisfy at least the US and the UK, the likelihood that there will be a resumption of regular flows of new IMF and bank loans and credit to South Africa remains small. However, whether banks would take any notice of the appeals to tie future debt rescheduling to political reform, is a moot point. Our analysis suggests not. But continuing internal and international pressure is likely to act to curtail the speedy resumption of the kind of 'special relationship' with the apartheid state, which characterised the 1970s and early 1980.

We have already examined some developments in South Africa's international financial relations since the second interim debt rescheduling agreement of March 1987. South Africa's immediate future prospects in obtaining financial assistance from banks and the IMF have also been evaluated. But what of international financial relations in a 'post-apartheid South Africa'? This dissertation is brought to a conclusion with some brief comments on this issue.

The September 1986 conference at York University in the UK on the 'post-apartheid South African economy', which popularised the usage of the term 'post-apartheid' in academic and activist circles, and

raised hopes of an imminent solution to the South African crisis, ironically took place at a time when the apartheid state was attempting to reassert its control over the character, pace and direction of political and economic restructuring. The tenor of the deliberations reflected an optimism about the prospects for a revolutionary transformation to a non-capitalist society which the events of the following two years have shown to have been somewhat, and sadly premature, even misplaced. It has become essential therefore to also contemplate a post-apartheid South Africa government and society which may be neither revolutionary nor anti-capitalist. The brief discussion which follows, however, begins with some thoughts on the difficulties which are likely to be faced by a revolutionary, anti-capitalist South African state, in its relationship with the international financial community.

There is little in the theory and practice of non-capitalist transformation and development that can effectively be drawn upon by post-revolutionary governments seeking some degree of autonomy and independence from the politics and institutions of the world capitalist system. This is especially the case for those state's which, in the wake of the demise of former radical versions of self-reliance, the Maoist variant is a case in point,⁸ have accepted the importance of an appropriately diversified form of participation in world trade, finance and investment. What this implies is development within the framework of the world capitalist economy, even where, as in the Indian experience of the 1960s, this is undertaken within a domestic development option of 'socialism', and/or within a pro-Soviet bloc foreign policy.

It is, however, essential to point out that there are much more complex issues at stake here than just choosing the 'correct' combination of international alignments and domestic development strategy. As White et al comment 'analytically speaking...it is inadequate to deal with international alignments in terms of the options to be chosen by national leaderships. The developmental implications of alternative choices are more fundamental than the

policy choice paradigm can comprehend.⁹ Successful transformation to a set of international financial relations in a post-apartheid South Africa, is not simply a matter of 'choosing' from a range of neatly packaged alternatives.¹⁰

Revolutionary governments, especially in the developing world have found that it has often been as hard to live with the institutions of international finance, such as the IMF, World Bank and private international banks, as it has been to live without their financial support and endorsements. A country like South Africa, whose particular form of development has been intrinsically tied to its extensive international economic relations, may find the task of living with this historical legacy in, say a socialist post-apartheid era, a particularly crucial and challenging one.

However, the events of the last few years and the increasing prospects for a negotiated settlement to the South African problem, raise the possibility of a post-apartheid South Africa which is neither revolutionary nor anti-capitalist. The analysis in this thesis implies that in fact the forces assessed here, the IMF, foreign banks and western governments are most unlikely to assist in any process that is likely to go beyond deracialisation and in fact appear to be very unsure of black majority rule in any form. Yet in a scenario without the problems of apartheid and sanctions, and provided the prospects for sustainable growth based on a fundamentally restructured accumulation strategy are in place, South Africa can expect a much more normal and unproblematic relationship with the IMF and private international banks. Whether these restored links will allow an improvement in the economic status of South Africa's black working class population, or a greater control over their lives, is a further question, the answer to which, judging by other country experiences, appears less satisfactory.

Post-apartheid South Africa's relationship with the Fund is likely to be characterised by increasing tensions, conflicts, pressures

and struggles as the scenario moves from the pole of a non-racial, democratic capitalist state (with a market-oriented economy) to one of socialism. Increasing controls over their lives by working and popular classes may be accompanied, at one extreme, by an increasing threat to the very existence of such a state form from western capitalist states, who may seek to maintain or reassert their economic and strategic interests in this region. This will in turn depend upon the particular configuration or balance of geopolitical and economic forces on a global scale, and the extent to which, southern Africa is identified as being crucial to mediating these crises of international political conflicts and accumulation. Examples from the experiences of other countries since the early 1970s, suggest that the institutions of international finance, such as the IMF, play no small part in these processes, though in ways and in directions which are less easy to predict than dependency theory implies. They can, in South Africa's case too, very well form an integral part in shaping the nature of and even the process of transformation to, a post-apartheid society.

ENDNOTES

1. Noel, 1987, p327
2. Corbridge, 1988, p4
3. See for example Payer, 1974; Hayter, 1981.
4. See for example Lipietz, 1986, 1987; de Vroey 1984.
5. For a critical discussion of some positive western initiatives in southern Africa in recent years, see for example, Holland, 1988.
6. Daily News, 17.07.89
7. This is a point made by Leys, 1985, p24 in the British case.
8. See for example Payer, 1974, Chapter 2.
9. White et al, 1983, p17
10. For a detailed discussion of alternative scenarios of South Africa's international financial relations after apartheid, see Padayachee, 1988a.

POSTSCRIPT: OCTOBER 1989

On 18 October 1989, the South African authorities announced details of a third interim debt rescheduling arrangement. The announcement was clearly timed to undercut a Commonwealth financial sanctions campaign to be announced the same day.

In terms of the agreement South Africa will pay \$1,5 billion or 20.5 per cent of the \$8 billion inside the standstill net in varying amounts over an extended period of three and a half years from June 1990 to December 1993 at one percentage point over applicable base lending rates.¹ Banking sources observed that this one point margin over the base lending rate was 'higher than expected for a country of South Africa's financial standing under current market conditions'².

Creditor banks retain the option agreed upon in March 1987 of converting debt inside the net into longer-term loans outside the net, by which arrangement some \$4 billion had already been so converted and rescheduled between March 1987 and October 1989. The first instalments of such conversions in terms of the latest arrangement only falls due at the beginning of 1998. In addition to the debt covered by this agreement, the country owes another \$12 billion 'outside the net'³. These loans have to be paid when each falls due. Nevertheless, the agreement announced in October 1989 appears to have been made with a view to synchronising debt repayments inside and outside the net: redemptions of debt inside the net will be lowest when redemptions of debt outside the net are highest, so relieving some pressure on the balance of payments and foreign reserves.

This third interim agreement presents a significant easing up in South Africa's debt situation, although the fundamental difficulties faced by the country's capital account since the mid-1970s remain. This point should be emphasised: the agreement represents a further easing of, rather than a long-term solution

to, the problems and pressures on South Africa's international financial relations. For it must be remembered that neither the IMF nor the major private international banks have, in terms of this or any other arrangement, signalled their intention of resuming normal financial relations with the apartheid state. In other words, substantial new credit from international sources is still an unattained objective.

ENDNOTES

1. Business Day, 19.10.89 and 23.10.89
2. Business Day, 23.10.89
3. Financial Mail, 27.10.89

APPENDIX 1

TABLE A

BANKS IN NEGOTIATIONS WITH SOUTH AFRICA OVER DEBT THE STANDSTILL

[A] BANKS ON TECHNICAL COMMITTEE

| BANK | COUNTRY OF ORIGIN |
|-----------------------------|-------------------|
| Commerzbank | FRG |
| Deutsche Bank | FRG |
| Dresdner Bank | FRG |
| Credit Suisse | Switzerland |
| Union Bank of Switzerland | Switzerland |
| Swiss Bank Corporation | Switzerland |
| Barclays Bank | UK |
| National Westminster | UK |
| Standard Chartered | UK |
| CitiBank | USA |
| Manufacturers Hanover Trust | USA |
| Morgan Guaranty | USA |

[B] BANKS IN BROADER NEGOTIATIONS

1. Almost certain involvement:

Osterreichischer Landerbank; Credit Anstalt Bankverein (Austria)
 Societe General de Banque (Belgium)
 Credit Lyonnais; Societe General; Banque National de Paris (France)
 Sumito Bank; Nikko Securities (Japan)
 Midland Bank (UK)
 Chase Manhattan; Republic National Bank; Bank America; Bankers
 Trust; North Carolina National Bank; Chemical Bank; Irving Bank
 (US)

2. Banks probably/possibly involved:

Banque Bruxelles Lambert; Creditbank (Belgium)
 Bayerische Vereinsbank; Westdeutsche Landesbank (FRG)
 Banca Commerciale Italiana (Italy)
 Banque Generale de Luxembourg (Luxembourg)
 Bank Leu; Swiss Volksbank (Switzerland)

SOURCE: ICABASA, Newsletter No 1&2, 1986/7; Lind and Espaldon,
 1986; Stuart Bell, Apartheid's Debt to the West, AAM, London, 1986,
 as quoted in Hirsch, 1988.

APPENDIX 1

TABLE B

COUNTRY RISK LEAGUE TABLE: SOUTH AFRICA*

| YEAR | RANK NO. |
|------|----------|
| 1979 | 51 |
| 1980 | 60 |
| 1981 | 38 |
| 1982 | 20 |
| 1983 | 27 |
| 1984 | 29 |
| 1985 | 31 |
| 1986 | - |
| 1987 | 57 |

NOTE: Information on country risk differs according to source, is subjective and because it has not been possible to derive this table for the years covered all from one source, some inconsistency in the figures are to be expected. These differences are not, however, critical and in any case the table is useful only to get a sense of the broad trends in South Africa's risk profile in this period.

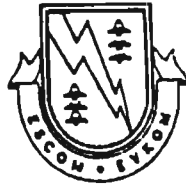
SOURCE: Euromoney; Institutional Investor; Various years

New Issue

20.2.85

This announcement appears as a matter of record only.

February 15 1985



ESCOM

Electricity Supply Commission

Sandton (Transvaal), Republic of South Africa

U.S.\$ 75,000,000

12¼% Bearer Notes of 1985/1991

Issue Price: 100%

irrevocably and unconditionally guaranteed by the

Republic of South Africa

Commerzbank Aktiengesellschaft

Banque Indosuez

Banque Paribas Capital Markets

Bayerische Landesbank Girozentrale

Creditanstalt-Bankverein

Credit Lyonnais

Dresdner Bank Aktiengesellschaft

Hill Samuel & Co. Limited

Kredietbank International Group

Nedbank International

Swiss Bank Corporation International Limited

Bank Cantrade Switzerland (C.I.) Limited

Banque Populaire Suisse S.A. Luxembourg

Union Bank of Switzerland (Securities) Limited

Banque Internationale à Luxembourg S.A.

Bayerische Hypotheken- und Wechsel-Bank
Aktiengesellschaft

Bayerische Vereinsbank Aktiengesellschaft

Crédit Commercial de France

Credit Suisse First Boston Limited

Goldmann Sachs International Corp.

Kleinwort, Benson Limited

Morgan Stanley International

N.M. Rothschild & Sons Limited

Bank Leu International Ltd.

31. Januar 1985

Neuemission



Gencor Group

GENBEL FINANCE B.V.

Amsterdam, Niederlande

DM 100.000.000,-
8% Anleihe von 1985/1991

unter der unbedingten und unwiderruflichen Garantie der

Genbel Investments Limited

Johannesburg, Republik Südafrika

- Wertpapier-Kenn-Nr. 474920 -

Verkaufskurs: 99 1/2 %

Dresdner Bank
 Aktiengesellschaft

Bayerische Vereinsbank
 Aktiengesellschaft

Commerzbank
 Aktiengesellschaft

Westdeutsche Landesbank
 Girozentrale

Banque Indosuez

Banque Internationale
 à Luxembourg S.A.

Crédit Commercial de France

Kreditbank International
 Group

N. M. Rothschild & Sons
 Limited

Union Bank of Switzerland
 (Securities)
 Limited

ABD Securities Corporation
 Bankhaus H. Aufhäuser
 Baden-Württembergische Bank
 Aktiengesellschaft
 Banca del Gottardo
 Banca Nazionale del Lavoro
 Banco di Roma
 Bank Gutzwiller, Kurz, Bungener
 (Overseas) Limited
 Bank Leu International Ltd.
 Bank J. Vontobel & Co. AG
 Banque Bruxelles Lambert S.A.
 Banque Nationale de Paris
 Banque Populaire Suisse S.A. Luxembourg
 Banque Worms
 Barclays Bank Group
 Bayerische Hypotheken- und
 Wechsel-Bank Aktiengesellschaft
 Bayerische Landesbank Girozentrale
 Bear Stearns International Ltd.
 Joh. Berenberg, Gossler & Co.
 Berliner Bank Aktiengesellschaft
 Berliner Handels-
 und Frankfurter Bank
 Bankhaus Gebrüder Bethmann

Bremer Landesbank
 Kreditanstalt Oldenburg - Girozentrale -
 Cazenove & Co.
 Crédit du Nord
 Dalbrück & Co
 Deutsche Girozentrale
 - Deutsche Kommunalbank -
 DSL Bank Deutsche Siedlungs- und
 Landesrentenbank
 DG Bank
 Deutsche Genossenschaftsbank
 Effectenbank-Warburg Aktiengesellschaft
 Genossenschaftliche Zentralbank AG
 Vienna
 Girozentrale und Bank
 der österreichischen Sparkassen
 Aktiengesellschaft
 Goldman Sachs International Corp.
 Hambros Bank Limited
 Hamburgische Landesbank
 - Girozentrale -
 Handelsbank N.W. (Overseas) Ltd.
 Georg Hauck & Sohn Bankiers
 Kommanditgesellschaft auf Aktien
 Hessische Landesbank - Girozentrale -

Istituto Bancario San Paolo di Torino
 Kidder, Peabody International Limited
 Landesbank Rheinland-Pfalz
 - Girozentrale -
 Merck, Finck & Co.
 B. Metzler seel. Sohn & Co.
 Morgan Stanley International
 Nedbank Limited
 Norddeutsche Landesbank Girozentrale
 Österreichische Länderbank
 Aktiengesellschaft
 Sal. Oppenheim jr. & Cie.
 Reuschel & Co.
 J. Henry Schroder Wagg & Co. Limited
 Schweizerische Hypotheken-
 und Handelsbank
 Smith Barney, Harris Upham & Co.
 Incorporated
 Trinkaus & Burkhardt
 The Trust Bank of Africa Limited
 Vereins- und Westbank Aktiengesellschaft
 M. M. Warburg-Brinckmann, Wirtz & Co.
 Westdeutsche Genossenschafts-
 Zentralbank e.G.
 Westfalenbank Aktiengesellschaft

All these bonds have been sold. This announcement appears as a matter of record only.



South African Transport Services

Johannesburg, South Africa

ECU 50,000,000 Retractable Bonds

The Bonds may be redeemed at the option of the Holder or the Issuer
on February 28, 1990 and February 28, 1995
Final Maturity February 28, 2000

Interest Rate 10% until February 28, 1990
and thereafter as determined by the Issuer on February 28, 1990 and February 28, 1995

Irrevocably and unconditionally guaranteed by the

The Republic of South Africa

Credit Commercial de France • Kredietbank International Group

Banca Commerciale Italiana • Banque Générale du Luxembourg S.A. • Banque Indosuez
Banque Internationale à Luxembourg S.A. • Banque Paribas Capital Markets
BBL International (UK) Limited • Berliner Handels- und Frankfurter Bank
Deutsche Bank Aktiengesellschaft • Dresdner Bank Aktiengesellschaft
European Banking Company Limited • Genossenschaftliche Zentralbank AG - Vienna
Hambros Bank Limited • Hill Samuel & Co. Limited • Société Générale de Banque S.A.
Swiss Bank Corporation International Limited • The Trust Bank of Africa Limited
Union Bank of Switzerland (Securities) Limited

Banca Manusardi & C. • Banca Nazionale del Lavoro • Banco di Roma • Bank Gutwiler, Kurz, Bungenier (Overseas) Limited
Bank in Liechtenstein AG • Bankhaus Hermann Lampe Hermann & Co. AG • Banque de Luxembourg S.A. • Banque Nationale de Paris
Banque Paribas Belgique S.A. • Banque de l'Union Européenne • Banque Worms • Bayerische Hypotheken- und Wechsel-Bank Aktiengesellschaft
Bayerische Landesbank Girozentrale • Bayerische Vereinsbank International S.A. • Berliner Bank Aktiengesellschaft
Casse Centrale des Banques Populaires • Commerzbank Aktiengesellschaft • Compagnie de Banque et d'Investissements, CBI
Compagnie Monegasque de Banque • Credit Europeen S.A. Luxembourg • Credit General S.A. de Banque • Credit Industriel d'Alsace et de Lorraine
Credit Lyonnais • Credit du Nord • Credit Suisse First Boston Limited • DG BANK Deutsche Genossenschaftsbank
L'Européenne de Banque • Ferret Lullin & Cie S.A. • Finanzbank Ltd. • Istituto Bancario San Paolo di Torino
Kleinwort, Benson Limited • Norddeutsche Landesbank Girozentrale • Österreichische Länderbank Aktiengesellschaft
Overland Trust Banca • Salzburger Sparkasse • Schweizerische Hypotheken- und Handelsbank • Societe (Jersey) Limited
United Overseas Bank (Luxembourg) S.A. • Vereins- und Westbank Aktiengesellschaft • M.M. Warburg-Brunckmann, Wirtz & Co

New Issue • February 28, 1985

New Issue

This announcement appears as a matter of record only

April 10 1985



Republic of South Africa

U.S.\$ 75,000,000

12½% Bearer Bonds Due 1991

Issue Price: 99½%

Commerzbank Aktiengesellschaft

Union Bank of Switzerland (Securities) Limited

Banque Indosuez

Banque Populaire Suisse S.A. Luxembourg

Bayerische Landesbank Girozentrale

Bayerische Vereinsbank Aktiengesellschaft

Berliner Handels- und Frankfurter Bank

Crédit Commercial de France

Deutsche Bank Aktiengesellschaft

DG Bank Deutsche Genossenschaftsbank

Nedbank International

N.M. Rothschild & Sons Limited

Swiss Bank Corporation International Limited

Westdeutsche Landesbank Girozentrale

SOURCE: Militz, 1985, p124

Privatplazierung

7. März 1985

Local Authorities Loans Fund Board

Pretoria

DM 75.000.000,-

8 1/8% Inhaber-Teilschuldverschreibungen von 1985/1990

unter der Garantie der

Republik Südafrika

Bayerische Vereinsbank
Aktiengesellschaft

Berliner Handels- und Frankfurter Bank

Commerzbank
Aktiengesellschaft

Dresdner Bank
Aktiengesellschaft

Vereins- und Westbank
Aktiengesellschaft

Banca della Svizzera Italiana

Banque Populaire Suisse S.A. Luxembourg

Wirtschafts- und Privatbank

The Trust Bank of Africa Limited

Volkskas Merchant Bank Limited

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