

DIE
SUID-
AFRIKAANSE
INSTITUUT
VAN
INTERNASIONALE
AANGELEENTHEDE

geleentheidspublikasie



occasional paper

THE
SOUTH
AFRICAN
INSTITUTE
OF
INTERNATIONAL
AFFAIRS

NOT TO BE REMOVED
THE S.A. INSTITUTE OF INTERNATIONAL
AFFAIRS

HAS THE
DISINVESTMENT
ISSUE BEEN
CAREFULLY
CONSIDERED?

BRIAN DOLLERY

Dr BRIAN DOLLERY is a Senior Lecturer in the Department of Economics and Economic History, Rhodes University.

It should be noted that any opinions expressed in this article are the responsibility of the author and not of the Institute.

**HAS THE DISINVESTMENT ISSUE
BEEN CAREFULLY CONSIDRED?**

BRIAN DOLLERY

ISBN: 0-908-371-49-7

September 1986

**The South African Institute
of International Affairs
Jan Smuts House
PO Box 31596, Braamfontein 2017, South Africa**

The violent turmoil rapidly becoming endemic in the African townships of South Africa has served to galvanise and mobilise public opinion both in South Africa and in the Western world generally towards seeking solutions to the country's pressing political crisis. In the heat and light of the emergent debate, numerous suggestions have been raised as to the most appropriate means of resolving the present violent conflict and achieving a mutually acceptable political system. Given the urgency of the situation, and the diversity of opinions expressed, it is not surprising that many organisations and individuals have inevitably been drawn into the debate.

One line of thought which has emerged argues that economic pressure should be brought to bear upon the governing authority either to speed up its announced programme of reform, or to force it into negotiations with political groups proposing (sometimes radical socialist) solutions to the South African question. Often the nature of such economic pressure is left unspecified. A case in point is the recent pastoral letter of the Southern African Catholic Bishops' Conference which noted that '... the most effective of non-violent forms of pressure left is economic pressure' adding the disclaimer that 'we realise we cannot give specific advice on how exactly economic pressures can or should be applied'.¹ Similarly, Sheena Duncan in a current Sash article expressed herself '... in favour of strategic selective economic pressures, carefully thought out, carefully monitored, and adjusted according to observed benefit'.² Other exponents of this position however, are much more specific on the particular kinds of economic pressure they view as potentially fruitful instruments to bring about political change. Some argue for various forms of economic sanctions to be applied to military and other selected spheres of activity, and a few even press for a total embargo of South Africa. Rather less militant groups tend to favour disinvestment, divestment, or both. Recently, the question of disinvestment has become especially important in this regard, and provides the focus for the remainder of the present discussion.

Broadly speaking, advocates of disinvestment appear to propose this drastic measure for three main reasons, which are by no means mutually exclusive. Firstly, there are those who urge the summary imposition of disinvestment as a punitive measure for the past and present misdeeds of the South African State. Secondly, some groups call for disinvestment in order to distance themselves from apartheid thereby achieving a kind of 'moral purity'. Since these reasons are essentially introspective rather than explicitly intended to effect political change in South Africa, they need detain us no further. The third category of support for disinvestment stems from the belief that this form of economic pressure provides a practical means of assisting in the resolution of the political crisis in South Africa.

It is very difficult to identify a cogent theoretical basis for the perceived link between disinvestment and desired political progress. However, within this third grouping there appear to co-exist two schools of

thought. On the one hand, there is the view that disinvestment, together with a host of other political, economic and military measures, will eventually weaken the South African economy to such an extent that the collapse of the governing regime will become inevitable. In this way, power will pass on to the 'progressive forces' in society and the political crisis will have been resolved. An additional benefit of this disinvestment strategy would be the removal of 'exploitative multinationals' from South African society altogether - a goal dear to many hardline Marxists.

The second school of thought within this camp adopts a more moderate view of the role of disinvestment, and is made up largely of Church organisations, academic institutions, and some western governments. The scenario envisaged here may be summarized as follows: a comprehensive programme of disinvestment will substantially lower the rate of economic growth in South Africa and consequently lead to the impoverishment of all sectors of the community; substantially lower standards of living amongst the business community, the government's own constituency, and disenfranchised groups will induce demands for change. Given increased internal pressures, the government will be forced to the negotiating table and, after intensive bargaining, an equitable political dispensation will emerge.

Quite apart from the fact that both viewpoints go little beyond broadly specifying cause and ultimate effect, and fall far short of providing an intellectually satisfactory mechanism linking strategy with alleged outcome, they also overlook several key factors. It is important for those seeking peaceful change in South Africa to point out deficiencies in the case for disinvestment, before the universal application of such policy lays waste to the South African economy with all that entails in terms of hunger and poverty. This is particularly true when one bears in mind that most people propagating the 'moderate view' genuinely believe this strategy to be a viable, non-violent means of achieving change.

The argument for disinvestment is characterised by a number of serious misconceptions regarding the political economy of South Africa. Firstly, the perception exists that South Africa possesses a modern developed economy which is capable of providing a western standard of living for all its citizens. Accordingly, it is the policy of apartheid which is responsible for the enormous discrepancies which exist between the advantaged and the disadvantaged. With the removal of apartheid, social problems in the fields of housing, education, health, employment and the like will disappear. Thus, any strategy aimed at the elimination of apartheid will, mutatis mutandis, solve these problems. Such a perception is profoundly misleading. With a per capita income of R3,316 South Africa represents a middle-income developing economy which remains heavily reliant on the export of primary commodities in very competitive world markets. It is pure wishful thinking to assume that the demise of apartheid will, in itself, provide solutions to the various problems of development. More-

over, fanciful notions of a 'restructured' economy and the implementation of a socialist state as necessary and sufficient conditions for the resolution of South Africa's social problems belong in the realm of fantasy. In fact, global evidence of the past few decades indicates that socialism intensifies the problems of development. The elimination of apartheid is at best a necessary condition for the alleviation of social problems insofar as it allows for increased wealth creation by removing impediments to the operation of the market system.

A second misconception concerns the nature of the political crisis in South Africa. Generally moderate people who favour disinvestment as a means towards peaceful change widely regard the present upheaval in South Africa as a legitimate civil rights struggle. This is particularly true of Americans who tend to see strong parallels with the Civil Rights Struggle of Martin Luther King during the 1960s. And indeed such parallels do exist. There is an undeniable need for the restoration of those political rights normally associated with the liberal capitalist societies of the west. However, this conception is seldom tempered by an acknowledgement of the radical or Marxist basis of some important political groups who have little interest in a peaceful non-violent accommodation. It is now undoubtedly true that there are revolutionary groups who strive for a 'classless' South Africa where individual liberties will be severely circumscribed.

Thirdly, there is very little awareness of the wide-ranging scholarly debate on the relationship between economic growth and political change in South Africa. Broadly speaking, there are two schools of thought on this issue.³ The liberal or orthodox view holds that the rational economic decision-making of the market system will inevitably erode and destroy the irrational racial prejudice underpinning apartheid. Economic growth, insofar as it hastens the spread of market forces, will assist in the elimination of apartheid. Consequently, increased foreign and domestic investment will induce favourable political change by stimulating the rate of economic growth in a predominantly market-oriented economy. The revisionist or Marxist thesis, in sharp contrast, views capitalism and apartheid as mutually reinforcing systems. Apartheid structures, by creating a 'labour repressive' society, facilitate the exploitation of black workers by monopoly capital. In order to secure the continuity of exploitation, capitalists in turn attempt to strengthen, adapt and perpetuate apartheid. Thus any effort which serves to weaken the power of capitalists will contribute to the destruction of apartheid. Consequently disinvestment, which, by lowering the rate of economic growth exerts formidable pressure on the capitalist system, represents a method of demolishing apartheid. Hence, whether one accepts disinvestment as a legitimate means of bringing about political change depends on one's perception of the relationship between free enterprise and the racist system of apartheid.

A fourth problem characterising arguments for disinvestment resides in their relative neglect of the potential impact on neighbouring states, as well as the range of countermeasures open to the South African authorities. Given the heavy dependence of Southern African states on the South African economy, even the absence of deliberate measures on the part of the South African government, disinvestment will presumably exact a grievous toll on the economies of these nations.

Countermeasures fall into two general categories: namely reprisals against those nations engaging in disinvestment, and reactive policies aimed at neighbouring Southern African countries. Reprisals could take the form of freezing assets and/or dividends, limiting imports, constricting exports of strategic materials, and the like. Probably much more important are the countermeasures South Africa could adopt vis-a-vis its neighbours which might include labour repatriation, the creation of transport bottle-necks, withholding essential supplies, and many other similar measures. Obviously proponents of disinvestment cannot focus exclusively on its potential impact on South Africa alone without a careful scrutiny of the possible countermeasures which could be implemented.

Finally, the very idea that investment can be cut off and then somehow resumed without serious long-run implications runs in the face of reality. Given the resource endowments of a developing country with its reliance on imported capital, even under the most favourable conditions it is difficult to entice sufficient foreign investment to ensure a rise in living standards. Should political impediments be placed on the flow of funds from abroad the economic environment is likely to deteriorate to the point where it cannot attract new investment even when the political constraints are removed at some future date. Indeed, a number of South Africa's neighbouring states find themselves precisely in this position. Zimbabwe, for example, was denied foreign investment during the period of international sanctions against the Smith regime. Subsequent to independence, apart from some economic aid from public agencies and foreign governments, virtually no private foreign investment has taken place. Economic growth in that country now cannot create employment for the thousands entering the labour market, let alone reduce the existing high level of unemployment.

A few, more thoughtful exponents of disinvestment, appear aware of this problem. Harvey, for instance, has observed:⁴

The main argument for pressurising firms to withdraw from South Africa is thus not because they are likely to do so, nor because it would be likely to achieve any of the desired objectives, but because it forces firms to justify remaining in South Africa.

In sum, it is incumbent upon those who advocate disinvestment to reflect that should such a strategy ever be effectively implemented, it is likely to visit poverty and hardship on generations of people not yet even born.

REFERENCES

1. Pastoral Letter of the Southern African Bishops' Conference on Economic Pressure for Justice.
2. Sash, vol. 28, no. 4, p. 21.
3. See, for instance, Merle Lipton, Capitalism and Apartheid: South Africa 1910-84. (Gower/Temple Smith, 1985).
4. Quoted in McGrath, M D and Jenkins, C 'The Economic Implications of Disinvestment for the South African Economy', unpublished paper presented to the Economic Society of South Africa Conference, September 1985.