

# **“The South African Economy: Structural Changes and Implications for the Future.”**

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## **Introduction**

In light of the escalating crisis in South Africa, this conference offers a timely opportunity for us to examine, among other issues, the development and growth of that country's economy since European penetration began almost 334 years ago. The ultimate objective of this historical and analytical survey is to understand the implications the economy holds for future social and political change. Given such an extensive period to deal with, I have selected an approach which will greatly facilitate my task. The 334 years have been divided into historiographically well-established periods in South Africa's literature. These periods are

- I. The Vereenigde Oostindische Compagnie (V.O.C.) Period, 1652-1795
- II. The Transitional Governments' Period, 1795-1814
- III. The British Colonial Period, 1814-1910
- IV. The South African Period, 1910-1986.
  - A. The Union of South Africa, 1910-1961
  - B. The Republic of South Africa, 1961-1986

These periods should not be viewed as a simple linear progression of events, one leading to the next, but as qualitatively different phases in the development of the country's economy. Each phase is influenced by constantly changing political, economic, social and military forces, both internal and external to the South African formation. Consequently, each period will be treated from a political economy perspective which will permit me to address the relations between politics, economics and society in each phase.

## **I. The Vereenigde Oostindische Compagnie (V.O.C.) Period, 1652-1795**

The V.O.C. was a powerful Dutch joint-stock company chartered in The Netherlands and headquartered in Java during the economic and political dominance of mercantilism. It was granted a monopoly of the Dutch trade, east of the Cape of Good Hope and authorized to maintain its own military and naval forces and to wage war or make peace within its domain.<sup>1</sup> Like other trading companies of this period, its basic rule of trade was to buy

cheap in order to sell dear. It bought cheap in the east and sold dear in the west. Its primary purpose in establishing a station at the Cape was to break the long voyage sailed by its ships between The Netherlands and its settlements in Java. Establishing and operating this base entailed four broad tasks:<sup>2</sup>

1. Constructing a fort, hospital, jetty, dwellings and barracks.
2. Defending the station against Africans, wild beasts and hostile ships.
3. Cultivating wheat, vegetables and fruit for local consumption and provisioning the Company's ships.
4. Bartering cattle from Africans.

These operations were concise and explicit. The station was to be operated as a single compound under the direction of the Commander and the Council of Policy.

Constructing the station required several productive factors, some of which the V.O.C. supplied and others which it expropriated from the local Africans. Factors it supplied consisted of three ships that it had dispatched for the purpose. These ships carried soldiers, sailors and munitions for defence; masons and carpenters to build the fort, hospital, jetty, dwellings and barracks; gardeners to grow the wheat, vegetables and fruit; cowherds, shepherds and pigherds to look after the livestock; a hospital superintendent, surgeon and the sick-comforter to man the hospital; a butler, provost marshal, the Commander, cooks and a few women and children.<sup>3</sup> Factors that it expropriated were the land on which all the component parts of the station were built and the timber required for construction. The small amounts of capital and labor supplied by the V.O.C. for setting up the Cape station constitute the first case of European capital and labor introduced into South Africa. Dutch foreign capital and labor used in conjunction with expropriated African land and other natural resources established the first European base in South Africa.

The work involved in carrying out the four broad tasks evidently overwhelmed the Company's servants. Consequently, on February 20 1657, the V.O.C. released nine soldiers and sailors from its service and permitted them to settle as free burghers on land granted to them around the station. They were settled on more land confiscated from Africans to which they were granted limited rights and were to produce wheat, rye, barley, oats and rice. The Company supplied them with agricultural implements, seeds and livestock on credit and at cost. Their entire produce was to be sold only to the Company at fixed prices. All free burghers were strictly prohibited from developing any export trade or establishing any industry, however small or rudimentary. Such restrictions were typical of the mercantilist era. These restrictions determined the nature of the economy which evolved in the Cape during the V.O.C. regime. By transferring the burden of producing the provisions from

its own servants to small Dutch peasant farmers, the V.O.C. not only initiated the process of colonization but set in motion forces that led to the establishment of the agricultural and pastoral farming industry in the Cape. The basic idea behind colonization was to increase output in the production of the requisite provisions and generate additional revenue to make the Cape enterprise self-supporting. These measures were expected to reduce the Company's overall operating expenses and help increase profits.

Once colonization began, more land to be worked required more labor. Attempts to recruit local Africans to supply this labor failed. On August 20, 1657, the V.O.C. authorized the capture and importation of slaves into the Cape. These slaves came from West Africa, Mozambique, Madagascar, Ceylon and Java. It appears that the availability of slaves helped accelerate colonial expansion. The arrival of more European colonists from France and Germany meant more wars against Africans whose land and livestock were rapaciously alienated. The gradual increase in European colonists, the V.O.C.'s loan lease land tenure system under which colonists were settled on the land, and the mercantilist restrictions placed on internal and external trade, forced the expansion of the colony eastward. Concurrent with this expansion was the development and growth of the agricultural and pastoral farming industry which depended on slave labor. Slaves were used mostly in agricultural settlements in the western Cape where all agricultural labor was performed by slaves under the supervision and direction of colonial farmers.<sup>4</sup> The eastern Cape, where livestock farming predominated, did not use much slave labor. Slaves owned by colonists were used as agricultural laborers, herdsmen and domestic servants, while those who were the property of the officials of the Company were used as employees, ordinary servants and public works laborers. Slave labor was inefficient when compared to free labor. The general economic consequences it had were that it locked up capital, retarded the process of capital accumulation, reduced possible investments in agriculture, construction, public works and so forth, and fostered waste, extravagance, idleness and lethargy.<sup>5</sup> Most importantly, it laid the foundation for a labor practice in which European colonial farmers who owned slaves, supervised and directed these slaves who carried out the actual work. It is from here on that all menial labor began to be relegated to blacks while supervisory functions were the purview of whites. Cape colonial farmers were more like plantation owners in the southern United States.

Both the creation of free burghers or the initiation of the colonization process and the introduction of slavery by the V.O.C. as well as its experience in using slaves in the east resulted in the division of labor along the following basic lines:

*See overleaf*

Occupation	Type of Work	Remuneration
Commander	Directed, administered and oversaw operations at the Cape station	Salary
Soldiers and sailors	Guarded the fort and ships, supervised company slaves and conducted expeditions outside the fort	Wages
Freedmen	Reared cattle and sheep; bred pigs, fowls, ducks and geese with the help of slaves	Profit
Slaves	Agriculture and pastoral farming and all other work, including assisting soldiers, sailors, freedmen and their families as domestics.	Food rations

The labor structure which evolved in the agricultural and pastoral farming industry of the Cape was elementary and consisted of European peasant farmers and a few men servants who possessed most of the requisite skills and slaves who initially were without the pertinent skills but learned these as Europeans instructed and directed them. This simple labor structure was characterized by the division of labor based on race in which Europeans who were white and generally owned slaves, directed and supervised Africans and other slaves who were on the whole black and not free. European perceptions of themselves as a privileged class that controlled slaves helped reinforce the racism which accompanied the slave trade.<sup>6</sup> Consequently, even when a slave became skilled in whatever job he was assigned, his social status in society, including within the labor structure remained unchanged. This rigid socio-economic and racist framework was carried over into the nineteenth century and survived the abolition of slavery.

The agricultural and pastoral industry was the only important industry in the Cape colony's pre-capitalist economy during the period 1652-1795. Its agricultural products were mainly vegetables, fruit, cereals and viticulture. Tobacco, flax and hemp were produced on a very small scale. Its pastoral products consisted of cattle, sheep, goats, pigs and horses, which unlike the other preceding items, were introduced from Java. Other smaller industries included sealing, lumbering, fishing and some commerce. Cottage and handicraft industries such as bakeries, tanneries, breweries, fruit preserving, soap making, candle making, wagon making, furniture making, iron-forging,

water-driven flour and saw mills were found wherever there were settlements. Market and trade opportunities were restricted and few. Colonial farmers sold their produce first to the Company at fixed prices, then to the ships calling at the station, to company officials and to a small number of craftsmen and traders. Exports of grain, wine and brandy to Holland or Batavia was the sole monopoly of the Company, exercised when large surpluses existed. With restricted internal and external trade, all commercial transactions within the colony were conducted by barter and metallic coins, the silver ducaton and copper stuiver being the most used. The amount of money in circulation depended upon the needs of the authorities, the number of calling ships, amount of money removed from circulation by purchases of colonists from passing ships, and coins exported by the Company to Holland or Batavia.<sup>7</sup> Paper money, the rix-dollar was introduced in 1782 and in 1793, the Lombard Bank a loan bank, was established. The bank's capital consisted of inconvertible paper money issued by the Commissioners-General of the V.O.C. and declared by them to be legal tender.

#### Population figures for selected years

1652:	125 Company servants
1672:	168 Free burghers
1700:	4 000 Free burghers
	1 500 Company servants
1793:	13 830 Free burghers
1795:	15 000 Free burghers
1687:	310 Slaves working for Free burghers
1708:	1 298 Slaves working for Free burghers
1756:	5 787 Slaves working for Free burghers
1795:	18 000 Slaves working for Free burghers and the Company

#### II. The Transitional Governments' Period, 1795-1814

"Whoever has the Cape is master of India."<sup>8</sup> Between 1795 and 1814, the Cape changed hands three times. This period has three phases, viz.

- A. First British Occupation, 1795-1803
- B. Second Batavian Interlude, 1803-1806
- C. Second British Reconquest, 1806-1814

The foregoing quote and three phases of the transitional period reflect hostilities that were taking place in Europe between France, England and to a lesser extent, The Netherlands. These were the Napoleonic wars in which the Cape station featured as an important strategic outpost which was vital for trade between Europe and Asia before the Suez Canal was built. The Dutch permanently ceded the Cape colony to the British at the London Convention of August 13, 1814. The entire transitional phase witnessed the con-

tinued consolidation of European colonial control over confiscated African land and dispossessed Africans. In the relationships between European colonists and slaves on the one hand, as well as Europeans and those Africans who were forced into the colony's economy, on the other hand, both the British and Batavian administrations intervened decisively on the side of the European colonists.<sup>9</sup> Military, political and social control were increased during the entire transitional period by further bureaucratization of administrations that were inherited from the V.O.C.

Economic activities in the colony still operated under strict mercantilist principles. The structure and component parts of the economy which was dominated by the agricultural and pastoral farming industry, remained unchanged. During the first occupation by Britain, British shipping, carrying British and eastern manufactures, dominated Cape commerce and increased imports, a trend which continued after the Batavian interlude. Even though the British began very slowly to free internal trade during their first tenure, British administrations still set prices of staples produced in the colony and taxed products entering the colony. The second occupation by Britain witnessed the gradual accession of the Cape into the system of British imperial preferences, when in 1813, the excise duty levied on Cape wines entering Britain was reduced. The Cape's economic activities grew very slowly during this period, even as the British connection was being established.

The most important economic changes during this transitional period were the following:

1. The Government Discount Bank, a subsidiary of The Lombard Bank, was formed.
2. A system of postal communications between Cape Town and inland districts by relays of postriders was established.
3. In 1813, a proclamation was issued allowing the holders of loan leases to convert their holdings into perpetual quitrent properties.
4. In 1814, a uniform system of local taxation was introduced throughout the colony.
5. Slave trading using British ships was abolished.

In summarizing, the economy of the Cape Colony during the transitional period was characterized by the development of the British connection, the slow dismantling of mercantilist monopolies, the increase in the European colonial population, the rising prosperity in the eastern districts of the Colony, the reduction of duties on wines imported into Britain.<sup>10</sup> Other equally significant features of this period were the cessation of the V.O.C. land tenure system based on loan leases and the introduction by the British colonial administration of the perpetual quit-rent system which assured European colonists virtual free hold rights over the land, the deliberate and ruthless

ways in which African lands and livestock were confiscated, the gradual emergence of capitalist agriculture (or commercial farming), and the beginning of a long series of wars between Africans on the one hand, and Imperial Britain and European colonists on the other.

### III The British Colonial Period, 1814-1910

Colonization by a joint-stock company is one thing. Colonization by an imperial government is quite another. This bloody and turbulent period has two distinct subperiods *viz.* 1814 to 1869 and 1870 to 1910.

#### A. 1814 to 1869: Aggressive Colonial Expansion

This sub-period was characterized by an aggressive and determined policy of colonial expansion and the subjugation as well as the containment of dispossessed Africans into separate and restricted areas. Some of the critical events of this period were:

1. The arrival from Britain of 6 000 settlers in 1820.
2. The introduction of the British silver and copper coins in 1825. Cape currency was linked to British currency.
3. The emancipation of slaves in 1834.
4. The Great Trek to the north and north east by almost 8 000 Cape colonists in 1836.
5. The first commercial bank in the Cape established in 1836.
6. Some 5 000 British and Irish laborers and artisans arrived in 1837.
7. Wool surpassed wine as the Cape's most important export in 1842.
8. Natal was proclaimed a British territory under the Cape colony government in 1843.
9. Namaqualand, where large copper deposits had been found, was annexed to the Cape colony in 1847.

By 1856, the European colonial populations of the two British colonies and two new Boer settlers' republics to the north had risen to approximately:

- 182 000 in the Cape
- 17 000 in Natal
- 16 000 in The Orange Free State
- 25 000 in the South African Republic, founded three years earlier.

Of these territories, only the Cape and Natal colony, to a lesser extent, had organized economies with various industries, trade and commerce, banking and developing infrastructure. Factors responsible for the development and growth of these economies were:

1. Extensive expropriation of land from conquered Africans.
2. Confiscation of livestock belonging to the vanquished.
3. Increase in British and Cape colonial capitals.
4. Skilled European artisans, including Cornish miners.
5. European ways of organizing productive work.

## 6. Freed slaves and dispossessed Africans.

In agriculture and pastoral farming, larger areas were brought under cultivation. The production of wheat, oats, barley, rye, wine, brandy and maize increased. The raising of cattle, sheep, horses, pigs, goats and poultry also increased substantially. Wool production from Merino sheep became a leading industry. Trade in both the Cape and Natal colonies was under the British principles of free trade which had replaced mercantilism. Trading in both agricultural and pastoral products increased to a point where, in 1856, exports comprising wool, hides, skins, copper and grain, to a lesser extent, amounted to £1,33 million compared to imports for the same year, which totalled £1,59 million and consisted of textile manufactured goods, agricultural implements and other necessities for colonization.<sup>11</sup> Internal trade was carried on by ox-wagons. The construction of public highways, bridges and mountain passes which began in 1844 was in progress. Ocean transportation had improved, especially after steamship services had been established between Britain, Cape Town and Port Elizabeth. Up until 1831, the Cape had only one bank, The Lombard and Discount Bank. Between 1831 and 1856, eighteen new banks were established in the Cape and one in Natal.

Other important events that attest to the aggressive colonial policy of this period were

1. The arrival in 1857 of 4 000 soldiers of the Anglo-German legion who had served against Russia in the Crimean War.
2. Another 2 000 agricultural colonists from north Germany arrived between 1858 and 1859 and settled also in the eastern Cape.
3. Part of the eastern Cape where the two preceding batches of colonists were settled was annexed to the Cape colony in 1865.
4. The First Population Census of the Cape colony in 1865 showed that there were 181 500 Europeans and 315 000 Africans.
5. Immigration increased when diamonds were discovered in 1867 near the banks of the Orange River, close to a European colonial settlement called Hopetown.

During this period of aggressive colonial expansion undertaken by Britain, commercial agriculture and pastoral farming in both the Cape and Natal colonies began to develop. By the end of the 1860s, capitalist agricultural and pastoral farming characterized by large-scale farming controlled by white settlers was firmly established. The Cape had the most advanced agricultural and pastoral farming industry in which substantial progress had been made in the production of maize, oats, barley and rye; viticulture, fruit-growing, wool-growing, cattle farming, dairying and horse breeding had advanced similarly.<sup>12</sup> Ostrich farming and the rearing of angora goats had started but were less advanced. Natal, which was second after the Cape, was producing



cereals, fruit, sugar, tea and livestock as it slowly increased its total output of all agricultural and pastoral products.<sup>13</sup> The Orange Free State had made fair progress in the cultivation of cereals and the growing of wool, in which it was second after the Cape.<sup>14</sup> The South African Republic (Transvaal) was the most underdeveloped and engaged entirely in cattle farming and to a lesser degree, sheep farming and agriculture.<sup>15</sup>

By 1868, agriculture and pastoral exports comprising wool, hides, skins, ostrich feathers, vines and mohair, amounted to 93.83 per cent of total exports from both the Cape and Natal while 1870 exports from ports of both colonies were £2,95 million and imports were £2,78 million. The period under discussion also witnessed the founding of Imperial Banks, the London and South African Bank in 1861 and the Standard Bank in 1862. By 1862 the Cape Colony had twenty-nine local banks, Natal had four while The Orange Free State had two. There is no evidence of the existence of a bank in the South African Republic during this period.

#### **B. 1870 to 1910: The Imperial Onslaught**

This period, more than any of the earlier ones since the penetration of Europeans through the Cape, saw the unleashing of European colonial adventurism and British imperial avarice and violence triggered by the discovery of diamonds and gold. Some of the major events of this period were:

1. Britain's annexation of the diamond mining area to the Cape Colony in 1871.
2. The granting of responsible government to the Cape Colony in 1872.
3. Opening of telegraphic communications between Cape Town and Kimberley in 1876.
4. The establishment of cable communications between the Cape and Europe in 1880.
5. The introduction of the telephone in South Africa in 1882.
6. By 1885, the entire diamond mining industry was using totally enclosed compounds which did not permit any African worker to leave the mining grounds for the duration of the labor contract.
7. The discovery of the main reef series on the Witwatersrand in 1886.
8. Direct railway communications between Cape port and the Witwatersrand by 1892.<sup>16</sup>
9. Direct railway connection between Pretoria and Delagoa Bay in Mozambique by 1895.<sup>16</sup>
10. By March 1890, the De Beers Consolidated Mines Limited had achieved total monopoly in the production and distribution of South African diamonds.
11. 1899-1902, the Anglo-Boer War, Britain's £250 million imperial onslaught for total domination over South Africa.

12. 1902-1909, Britain reconstructed its four colonies, The Cape, Natal, Orange River and Transvaal with the intent of unifying them and rationalizing that part of its empire.
13. 1910, The Union of South Africa is formed and the foundations of South Africa's gold mining industry were set.

The foregoing selective events occurred against an economic background in which capitalist agriculture and pastoral farming was well established in the Cape and Natal colonies but just beginning to develop in The Orange Free State (later The Orange River Colony) and the Transvaal. Alongside this uneven development of capitalist farming were African peasant farmers, who still owned land and livestock and produced enough of a surplus to compete with settler farmers in some major markets.

Both the diamond mines of Griqualand West and the gold mines of the Witwatersrand were primary markets for agricultural and pastoral produce followed by older colonial settlements, particularly in the Cape. Tertiary markets for farm products consisted of exports and industries that grew out of the needs of both the diamond and gold mining industries. By 1872, the Cape Colony possessed the most developed small-scale manufacturing industries which consisted of milling, baking, building, cart and wagon-making, wine and brandy-distilling, candle-making, fruit-preserving, fish-preserving, brewing, blubber-boiling, boat-building and tanning.<sup>17</sup> But with the growth of the diamond mining industry these small manufacturing industries, as well as the agricultural and pastoral farming industry, experienced incredible rates of growth. The diamond mines of Griqualand West transformed the agricultural and pastoral economies of the Cape and Natal colonies into agricultural-mineral based economies. This transformation was consolidated even further when gold was discovered and exploited in the Transvaal, resulting in the economies of all four British colonies being agricultural-mineral based. The development of both the diamond and gold mining industries set in motion the following economic forces:

1. Increasing numbers of European, Australian, Canadian and American immigrants.
2. Accelerated growth in agricultural and stock farming industries.
3. Expansion of the transportation and communications system domestically.
4. Provision of colonies and republics with increased market opportunities.
5. Increased the demand and growth of the banking system.
6. Attraction of increased foreign capital from Germany, France and Britain.
7. Increased domestic and international commerce and trading opportunities.
8. Expansion of industries directly associated with mining industries' needs.

#### IV. The South African Period, 1910-1986

##### A. 1910-1960: The Union of South Africa

The formation of The Union of South Africa was a bold step by the British imperial government, designed to rationalize its colonial economies in South Africa by unifying them into one. The benefits derived from this economic reorganization were:

1. The adoption of a uniform national economic policy.
2. Centralization of railways, harbors and ports administration.
3. Establishment of a national department of agriculture.
4. The creation of a national department of commerce and industries.
5. The formation of a single department of mines.
6. The institution of a unified land policy.
7. The establishment of political and civil rights of Europeans.
8. The subordination of political and civil rights of Africans beyond any doubt.

Between 1910 and 1914, a broad policy of general economic development was pursued by the first South African government in the agricultural, mineral and nascent manufacturing sectors of the new unified economy. The size of each of these major sectors as a percentage of gross domestic product for the years 1911 and 1912 were mining 27.1 per cent, agriculture 17.4 per cent and manufacturing 6.7 per cent.<sup>18</sup> By 1913, imports into South Africa amounted to £41 829 000, while exports were £66 569 000 — resulting in a healthy trade surplus. In 1914, imports were down to £35 355 000 and exports were £39 934 000. By 1915, the figures were £31 811 000 for imports and £34 818 000 for exports.

The first World War stimulated the South African economy, particularly the agricultural and manufacturing sectors, for the following reasons:

1. European nations were at war and the US was hard at work producing supplies to belligerents;
2. There was a considerable rise in price and demand for foodstuffs and raw materials in Europe;
3. South Africa was unable to import any articles not normally produced domestically; local producers had to fill the void;
4. Banking and credit facilities were greatly expanded and this stimulated and increased output;
5. Because South Africa was thousands of miles from Europe and the United States, natural protection resulted in a rise in freight, insurance and other import charges.<sup>19</sup> The first Union Customs Tariff Act, No. 26 of 1914, was mainly a revenue measure but also gave limited protection to a number of South African made products.

Agricultural produce such as meat, ham, bacon, butter, cheese, lard, eggs, dried fruit, sugar, Turkish tobacco and so forth, previously imported in large

quantities, were produced locally on a scale where once local demand was more than satisfied, the surpluses were exported in appreciable quantities.<sup>20</sup> Maize, wheat, wine, brandy, fruit, cotton and other products were also exported. A large number of new factories came into existence as manufacturing developed rapidly. This rise is reflected in the following statistics:

#### Gross value of manufacturers:

1911	—	£17 million
1915-1916	—	£40 million
1920-1921	—	£98 million

The component parts and structure of the South African economy seen through its three major sectors at that time and tabulated in terms of three economic variables viz. Value of production, Number of employees (European and African), and Wages of both Europeans and Africans was as follows:<sup>21</sup>

		SECTORS		
		Agriculture	Mining	Manufacturing <sup>4</sup>
Value of production <sup>1</sup>	1915-16	\$ . . .	\$43,531,000	\$18,119,000
	1917-18	70,779,000	52,260,000	25,875,000
	1919-20	110,236,000	56,959,000	39,063,000
	1921-22	65,768,000	54,268,000	36,623,000
		1918	1921	1921-22
Number of employees	European	166,000 <sup>2</sup>	33,000	60,000
	African	433,000 <sup>3</sup>	258,000	110,000
Wages (1921)	European	\$ . . .	13,259,000	14,777,000
	African	\$ . . .	7,665,000	5,353,000

1. The value of the agricultural and pastoral production is based upon the average wholesale or open market prices in the Union in each year, and the value of manufacturing production represents value added in the process of manufacture.
2. Including farmers, farm managers, overseers, "byowners," and ordinary agricultural laborers. All those actively engaged in farming operations and primarily dependent upon them for their livelihood.
3. Excluding Africans engaged in agriculture and stock farming in native reserves and locations.
4. In 1919, its three sub-sectors, Food, Clothing and Textiles, Wood and Paper Products accounted for 57% of manufacturing. Two other important sub-sectors linked to mining were Chemicals and Base Metals.

It should be remembered that the process of capital formation or accumulation generated by the diamond and gold mining industries made it possible

for a local manufacturing industry to develop in South Africa. Without the foreign exchange earned from exporting mineral resources, South Africa would not have been able to first import certain basic capital goods and later import components thereof as local initiative and capabilities developed. Consequently, industrialization in South Africa relied on surpluses created within the growing mining industries. A critical change in the economic development policies of the country occurred in the mid-1920s. The political climate of this period was characterized by the alliance between White labor and Afrikaner dominated rural capital. This alliance entrenched the economic positions of both White labor and White farmers and resulted in the PACT government of 1924 to 1933, which began the process of state intervention in the economy, a feature that has become permanent in the South African formation.

Between 1925 and 1929, the manufacturing industry in South Africa grew significantly. The following table illustrates the extent of this growth:<sup>22</sup>

	1924-1925	1928-1929	% Increase 1925-1929
No. of establishments	6,000	6,238	4
No. of workers			
all races	115,000	141,000	22
whites only	41,000	54,000	32
others	74,000	87,000	18
Value of gross output (R. millions)	115 million	161 million	39
Value of net output (R. millions)	49 million	67 million	37

The great depression, which began with the stock market crash of 1929, hit South Africa's agricultural, mining and manufacturing industries. Between 1930 and 1933, total employment, value of gross and net output of many businesses declined. But the number of whites employed increased over the same period due to the government's "civilized labor policy." The fusion years, 1934 to 1939 witnessed strenuous efforts at fusing together politically Afrikaners and English-speaking South Africans. Economically, these years had interesting developments such as the production of iron and steel in 1934 by the South African Iron and Steel Industrial Corporation (ISCOR) established in 1928, the massive road-building program started in 1935, the reorganization and inauguration of the South African Airways as well as the extension of air services to Windhoek (in Namibia) in 1935, the founding of the South African Broadcasting Corporation in 1936, the creation of Marketing Control Boards for agricultural commodities in 1937, and

the elimination of the "poor White problem" through economic diversification and industrialization.

National income between 1919 and 1939 rose modestly from an annual average of five percent to five and four-fifths percent while per capita income rose to about two to three percent per year over the same period, except during the 1920 to 1922 recession and the depression between 1929 and 1932.<sup>23</sup> When World War II broke out in 1939, South Africa's industries were in a much stronger position than they were in 1914. All its industries had experienced growth. Between 1920 and 1940, the mining industry grew rapidly and replaced agriculture as the dominant industry. Both mining and agriculture were major sources of foreign exchange during this period. Sectoral shares of gross domestic product shown below for the years 1920 to 1940 substantiate this growth.<sup>24</sup>

Sector	1920	1925	1930	1934	1940
	%	%	%	%	%
Agriculture, forestry and fishing	21,7	20,2	14	13,7	12,1
Mining	19,4	16,0	17,2	19,5	20,6
Manufacturing	7,1	7,7	9,2	10,7	11,6
Commerce and Finance	15,3	14,9	14,8	13,5	13,8
Others	36,5	41,2	44,8	42,6	41,9
Total	100,0	100,0	100,0	100,0	100,0

By the end of World War II, the stage for further growth of the South African economy was set. Its transportation and communication systems were well developed; cheap electric power was available; the iron and steel industry was maturing; capital and technological knowhow were mobilized on a large scale from abroad and, to a lesser extent, domestically; and a massive supply of cheap African labor had been created by the state. The experiences gained in production and management during the war years (1939-1945) were crucial in the development of human resources used in the economy. Enterprises such as the Industrial Development Corporation (IDC), the South African Coal, Oil and Gas Corporation (Sasol) and the Phosphate Development Corporation (Foskor) were established as a consequence of applying technical knowhow to the minerals being produced. The development of the Orange Free State gold fields after 1949 extended the life expectancy of the country's gold mining industry. A rise in the output of gold meant an increase in foreign exchange earnings which were used to underpin the country's balance of payments. These were strained by the large importation of raw material, intermediate and capital goods which had to be replaced. The period 1945-1960 demanded large amounts of domestic and foreign capital for the development of the Orange Free State gold fields

2. large power and water supply projects being planned
3. expansion of manufacturing facilities to meet increasing domestic and foreign demand
4. housing, health services and education.

Growth rates of real gross national product averaged 4,4% per year during the period 1946 to 1960. The average annual growth rates in periods of five years between 1946 and 1960 were 6,1% for 1946 to 1950, 3,8% for 1951 to 1955, and 3,7% for 1956 to 1960.<sup>25</sup> Savings in 1947 were 9,2% of gross domestic product and 23,5% of gross domestic product in 1949. Over the period 1946 to 1960, savings were 19,8% of gross domestic product. Also during the period 1946 to 1960, net capital inflows were \$1 446 million or approximately 14% of total capital funds available domestically. Foreign capital was of vital importance to South Africa's development and growth.

#### Sectoral Composition of Gross Domestic Product<sup>26</sup>

Sector	1946-50 %	1951-55 %	1956-60 %
Agriculture	15,8	16,5	13,3
Mining	11,6	12,0	13,3
Manufacturing	18,0	20,1	20,3
Construction, electricity, gas, water, transport and communication	14,5	14,6	15,3
Wholesale and retail trade and accommodation	16,9	14,8	14,8
Financing, insurance, real estate and business services	8,1	8,1	8,8
General Government	8,8	7,9	8,4
Other	6,3	6,0	5,8
<b>Total</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>

#### B. 1961 to 1986: The Republic of South Africa

The political turmoil of March 1960 aggravated the recession that started in 1958. The consequent outflow of substantial amounts of foreign capital caused the country's gold holdings and other foreign reserves to drop to their lowest levels since 1945.<sup>27</sup> Between 1960 and 1963, South Africa experienced a net outflow of foreign capital of between 60 per cent and 134 per cent of the net outflow levels recorded in 1958 when the recession began. This troubled time was the closest African liberation aspirations came to being

addressed. Because of the deteriorating economic situation, the government imposed exchange controls and tightened import controls to stem the outflow. This phase was followed by six years of rapid economic growth from 1962 to 1967, the longest period of sustained growth since 1945. The average annual rate of increase in the gross national product was 6,3 per cent, the highest for the entire period since 1945. Some of the major reasons for this growth were import controls that fostered the establishment of local production, rapid expansion of the infrastructure, economic decentralization from the major growth centres, the recruitment of skilled White immigrants, and the maintenance of a consistently high level of repression of Blacks which kept their wages low. From a high annual growth rate of 7,6 per cent in 1967, 1968 had a low 4,0 per cent rate of growth. The recession between 1969 and 1972 kept this rate at 4,0 per cent until 1973 when a slight improvement occurred, caused by a sharp rise in the price of gold, the country's main foreign exchange earner. This modest growth trend was reversed by the end of 1974, when inflation increased dramatically and a recession set in in almost all the major capitalist industrial countries, South Africa's major trading partners and suppliers of capital. The primary source of this inflation was the "oil shock" of 1973-1974 in which the price of crude per barrel quadrupled in the aftermath of the Arab-Israeli War.

The years 1974 to 1977 witnessed a general decline in the South African economy due to the continuing recession, internal cyclical factors and the deteriorating political situation in which Black workers, students and school children rebelled against apartheid by focusing on a plethora of grievances that are endemic to the system. Economic activity picked up from 1978 and the recovery reached its peak in August 1981, after which the economy was on the downturn until 1983. This recession was the worst South Africa experienced since the Great Depression. The principal factors contributing to the recession were the serious drought the country was having, the drop in the price of gold, and increasing negative international reaction to, as well as pressure against apartheid and its excesses. The International Monetary Fund had to rescue South Africa in 1982 by lending it \$1,1 billion and bluntly stated that the country's racial policy of apartheid was creating "inflationary pressures" and "adding to unemployment" among Blacks.<sup>28</sup>

The South African economy is beleaguered by both internal and external forces whose power is steadily increasing. Internally, it is saddled with a heavy international debt; its gross national product is declining;<sup>29</sup> it is experiencing increasing levels of unemployment among Blacks; Black trade unions are becoming more militant in their economic and political demands; there is a pervasive political consciousness among Blacks of all ages which is being translated into strikes, boycotts, popular demonstrations, the elimination of state informers and collaborators, as well as other political actions



that directly or indirectly affect the economy; finally, the growing uncertainty that comes from Whites realizing that political, economic and social changes in which Blacks play an increasing role are imminent, despite the "comforting assurance and reliance" the state places on its powerful military machine, led by professional and erudite generals. Externally, the economy is being impacted upon by, among other factors, the divestment campaign which continues to spread, cautious terms that international lenders want for providing both short and long-term credit, the selective boycotts of South African products and companies doing business with South Africa, and the agitation for and possibility of comprehensive sanctions, as well as an oil embargo. The South African economy is an open economy which depends on trade and capital inflows for its survival. It is vulnerable to both internal and external pressures and, as of now, its future is uncertain.

### Implications for the future

"Every industry of importance in South Africa has been built on the basis of (Black) labour. The vineyards and farms of the Cape Province in the early slave days, the diamond fields of Kimberley, the scattered pastoral settlements of the interior, the ports with their cargoes to be loaded and unloaded, the gold mines of Pilgrim's Reef, Barberton and the (Witwaters) Rand were all developed by means of (Black) labour working under the supervision of "European 'baases'"<sup>30</sup>

Today's major industries in the South African economy are manufacturing, mining, transportation-storage and communications, electricity-gas and water, agriculture, forestry and fishing and construction listed in a declining order based on size. The country's agricultural and pastoral farming industry or agriculture is over 300 years old; its mining industry is a little over 100 years old; the manufacturing industry is around 70 years old; and its steel industry is well over 50 years old. These major and other minor industries have developed and grown through increasing infusions of European, American and some South African productive factors which were used in conjunction with increasing masses of Black labor generated largely by landlessness and taxation. Further growth in all the sectors of the economy is constrained by the requirements of the apartheid system, the limited size of the domestic market, the mounting pressure exerted by the liberation forces inside and outside the country, overseas campaigns by solidarity groups, as well as the internal and external forces mentioned earlier.

South Africa is an African country on which a European settlement was forcibly grafted despite the resistance from Africans. This European socio-economic and political formation has developed and grown alongside its African counterpart, which it has ruthlessly emasculated. The European formation consisted of European immigrants, capital, technology, skills, culture

and other influences which were used on lands expropriated from Africans. The African formation was reduced to landless and propertyless masses of Africans who had to work for Europeans in order to survive. Continuing inflows of productive factors and technology from Europe, the United States, Canada, Australia and more recently Japan have helped this European outpost grow. Again, these inputs have been used in conjunction with masses of cheap African labor and both have built the most developed economy on the continent. The distribution of income in this economy is skewed in the most extreme. The European minority's share of national income permits it to enjoy one of the highest standards of living in the world, while the African majority's share maintains Africans at a subsistence level by South African European standards.

The strength and influence of the South African economy extend well beyond its border and affect all the states within the southern African region. The most dominant economic organizations through which this power is exerted are the South African Transport Services (SATS), the Electricity Supply Commission (ESCOM), the Southern African Customs Union, the Rand Monetary Area, as well as the Post and Telecommunications system.<sup>31</sup>

#### 1. The South African Transport Services (SATS).

It has 24 500 route kilometers of railways and carries 45% of the combined total imports and exports of Zambia, Zimbabwe, Malawi and Zaire.

##### Imports:

Zambia	— 70%
Zimbabwe	— 68%
Malawi	— 60%
Zaire	— 57%

##### Exports:

Zambia	— 40%
Zimbabwe	— 65%
Malawi	— 50%
Zaire	— (45% of copper; 60% of lead and zinc; 40% of cobalt)

#### 2. The Electricity Supply Commission (ESCOM) supplies the following countries and city with power:

Lesotho	— 100%
Swaziland	— 79%
Botswana	— 52%
Zimbabwe	— 2%

Maputo, in  
Mozambique — 60%

3. The South African Customs Union.

Its members are:

Lesotho  
Botswana  
Swaziland  
South Africa

4. The Rand Monetary Area (RMA).

It covers:

Lesotho  
Swaziland  
South Africa

5. Post and Telecommunications

All of Lesotho's and Swaziland's international telecommunications traffic and some of Botswana's, passes through South Africa. The economies of several states in Southern Africa have economic relations with South Africa in which the latter accounts for:

77% of the region's gross national product (1980)  
77% of the electricity generated (1980)  
97% of the coal mined (1980)  
98% of the iron ore mined (1980)  
70% of the maize grown (1980)  
87% of the wheat grown (1980)  
67% of the sugar crop (1979)  
39% of the cattle stock (1980)  
80% of the sheep flock (1980)

**Conclusion**

South Africa relies on its powerful economy as a basis for constructing and conducting its relations with its neighbours in southern Africa. Economic power and military might, both derived from a strong and mature economy, are the cornerstones of its foreign policy in the region. The primary objectives of this policy are to extort support for or impose compliance with South Africa's hegemony in the region and to continue enforcing apartheid within South Africa itself. The future of both the Blacks in South Africa and African states in the region depends very much on forces that exert the greatest influence on the South African economy and consequently determine the direction it takes. The liberation movement in South Africa and the fight for economic independence by states around it will have to seriously evaluate

the central position occupied by the economy of South Africa in their struggles.

### Notes:

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3. Jan van Riebeeck, *Journal, 1651 to 1662*, ed. H. B. Thom, Cape Town: A. A. Balkema, 1952 — 1958, Vol. I, p. III.
4. de Kock, p. 36.
5. *Ibid.*, p. 16.
6. Eric Williams, *Capitalism and Slavery* (4th impression; New York: Capricorn Books, 1966), p. 7.
7. de Kock, p. 17.
8. Quoted in Sally Herbert Frankel's *Capital Investment in Africa* (London: Oxford University Press, 1938), p. 41 and spelt out in *An Account of the Cape of Good Hope* (London: C. and R. Baldwin, 1804), pp. 327-339, by Captain Robert Percival who had visited the Cape Colony on his way from India. The account examines the political and commercial advantages derived from possessing the Cape.
9. William M. Freund, "The Cape under the transitional governments, 1795-1814," *The Shaping of South African Society 1652-1820* eds. Richard Elphick and Herman Giliomee, New York: Longman Inc., 1979, p. 214.
10. *Ibid.*, p. 220.
11. de Kock, p. 101.
12. *Ibid.*, p. 106.
13. *Ibid.*
14. *Ibid.*
15. *Ibid.*
16. These two systems are the foundations on which the present South African Transport Services (SATS) system was built.
17. de Kock, p. 283.
18. D. Hobart Houghton, *The South African Economy* (4th edition; Cape Town: Oxford University Press, 1976), p. 42.
19. de Kock, p. 130.
20. *Ibid.*, p. 130-131.
21. *Ibid.*, p. 133.
22. Houghton, p. 122.
23. *Ibid.*, p. 40.
24. *Official Yearbook of the Republic of South Africa* (11th edition; Cape Town, 1985), p. 347.
25. *Ibid.*, p. 348.
26. *Ibid.*
27. Houghton, p. 292.
28. International Monetary Fund, *Staff Report for the 1983 Article IV Consultation and Review under the Stand-By Arrangement*.
29. Jonathan Kapstein, John Hoerr and Elizabeth Weiner, "Leaving South Africa" *Business Week*, September 23, 1985, p. 109.
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31. Department of Foreign Affairs (Republic of South Africa), *South Africa: Mainstay of Southern Africa*, September 1985.