Reciprocal effects of economic development and multinational corporate strategy.

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RECIPROCAL EFFECTS OF ECONOMIC DEVELOPMENT
AND MULTINATIONAL CORPORATE STRATEGY

VOLUME I

Submitted by Nicholas Temple, van der Walt
for the degree of Ph.D.
of the University of Bath
1984

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N.T. van der Walt
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ACKNOWLEDGEMENTS

There are few places as lonely as a blank sheet of paper at the start of what is to be a long journey. Yet in the course of such a journey companions join the traveller while others help him along the way providing him with both sustenance and support. A few become friends. My travels through the literature produced a number of companions yet it was in the wish to journey into industry that support and friendship came. In this I wish to extend my thanks to Orlando Oldham for providing the introductions into this area. My sincere thanks also go to Ken Hodgson for his considerable time, effort and encouragement both during the research period and afterwards. I am also grateful to Sir Colin Campbell, Peter Higgins, Zach de Beer, Tony Mitchley and David Devereux for their willingness to give readily of their limited time.

My guide, without whose optimism and stimulus the project would have seemed impossible, Professor Raymond Thomas, deserves special thanks not only for wisdom of knowing when to let a student run wild and when to reign him in but also for his consistent confidence and support through all.

To Kay Jupe without whose superb secretarial instincts none of us would have known where we were - thank you. Hazel Gott, who typed the completed manuscript, deserves special thanks for her patience and the high quality of the completed script.

However, it is unreservedly to my family to which my greatest thanks goes. To my parents who through their understanding and foresight made the journey possible and provided both sustenance and support
with unstinting generosity - thank you. What thanks could be sufficient for my wife who has through everything provided love, understanding, support and inspiration? To her I have the honour of dedicating this work in which both of us are so bound in our past and in our present.
For my wonderful

Cornelia
In this dissertation economic development is defined as meaning the social, political and institutional change necessary to generate and sustain economic growth. On the basis of this definition an assessment of the relevance of contemporary orthodox economic theory to the analysis of economic development is made. It is suggested that where countries such as South Africa and the dependent states surrounding it have yet to determine such fundamental issues as the nature of their future contributions, economic systems and social structures, it is not sufficient to discuss the development problems within the analytical parameters allowed by the orthodox positivist framework.

The researcher therefore utilises a grounded theory approach to examine elements of South Africa's development problem by means of an investigative study into the role of foreign direct investment in economic development. Initially the South African economic, ideological, social, cultural environment is described by means of an eclectic discursus of the literature which is used to suggest possible roles for the multinational corporation. The strategic response of foreign firms operating in South Africa is then studied by means of an analysis of extended interviews conducted with senior executives of international firms operating in South Africa who, the researcher felt, would have an overall understanding of the activities and ethos of their firm and who were not restricted by particular functional, divisional or other structurally related perceptions.

In a separate appendix a set of detailed case studies briefly contrasts the shorter term operations of international service agencies and heavy engineering contractors from other European countries with this long
term involvement of British manufacturing firms, concluding that their developmental contributions were negative. Reasons ranged from corruption to simple inefficiency.

On the basis of this approach, the conclusion is reached that foreign enterprise has a major role to play in the political development of South Africa as one element of its economic development and that this politicisation of its role emerges from its economic activities and is inherent in areas where there is rapid economic growth in conjunction with political change.

At the same time, however, where there is a lack of control over involvement which is, by the nature of the operation, essentially short term foreign enterprise may have an extremely detrimental effect on the economic aspect of economic development and thereby on the political element.
CHAPTER ONE

INTRODUCTION

1.1 THE NATURE AND SCOPE OF THE STUDY

Controversy over the role of foreign direct investment in South African political and economic development over the last two decades has led to the emergence of two schools of thought as to the desirability of such international corporate participation in its economy. Both arguments are essentially politically motivated the first suggesting that such investment is supportive of the present political system and therefore inimical to the full economic development of all population groups. The second approach, by contrast, sees such investment as generating, through its contribution to economic growth, pressures for such social and political changes as are necessary to at least sustain current levels of economic activity. In each instance economic development is, in the tradition of such economists as Seers, Streeten and Myrdal, perceived as the economic, social, political and institutional change necessary to bring about the achievement of the full potential of the human personality within the market economy by all those who wish to participate in it. (Seers, D., 1972(i); Streeten, P., 1972; Myrdal, G., 1970.)

Despite, however, the burgeoning literature on the political parameters of foreign direct investment in South Africa, there has been little structured debate on the interrelationship between economic development and the strategic framework within which multinational corporations conduct their operations. While theoretical knowledge of the role of foreign direct investment as an element of the economic development of South Africa may be readily furthered by means of a discursive approach
to the literature this, as will be demonstrated in ensuing chapters, is of little value.

a. Firstly, the relevance of contemporary orthodox economic theory to the problems of the rapidly developing countries may be questioned;

b. Where the inherent assumptions of such theories do take into account the specific problems of such countries they are of little relevance to South Africa because of its unique social, political, cultural and economic structure;

c. While a normative approach to development in South Africa is acceptable and is advocated in ensuing chapters, such an approach should preclude subjective political judgements while nevertheless accepting the necessity for a full analysis of the political dimension of development which is also, as will be demonstrated, of direct relevance to the strategy formulation of multinational corporations operating in areas of high political risk;

d. Implicit in this criticism of the literature is what is referred to in Chapter Two as "illegitimate isolation". Foreign direct investment in South Africa may be analysed in terms of the contribution of individual firms - the ethos of each firm, the ethical perceptions of their managements, political constraints in the home economy, in addition to the standard determinants of strategy such as product type, technology, market structure, etc. However, this contribution must be seen as being determined within
the overall South African economic, cultural, historical
and social milieu which cannot be legitimately broken down
into constituent isolated variables for ease of analysis.

Nevertheless, an eclectic approach to a discursus of the relevant
literature does serve to indicate the framework within which a useful
empirical study of the role of the multinational corporation in South
Africa may take place.

South Africa has developed a powerful economy based upon high levels
of technological development, efficient mining and agricultural tech­
niques and a high degree of capital mobilisation. It is difficult,
however, to assess the role that foreign direct investment has played
in this process. Because of political pressure, both at home and abroad,
the South African government through statute and internal departmental
regulation has restricted all data which could serve to indicate the
degree of South Africa's dependence on foreign capital. Thus, while it
is possible, as in Chapter Three, to postulate on the extent of South
Africa's dependence on such capital, it is difficult to determine this
precisely.

Two solutions to this problem may be suggested. Firstly, it is possible
to conduct a general qualitative study to assess the dependence of South
Africa on foreign technology, the efficiency of labour utilisation by
foreign firms, market expansion at home and abroad as a result of the
activities of multinationals, the utilisation of the South African
capital markets in relation to the productive asset value of firms
operating in the Republic, etc. Each of these areas would, however,
require a major research effort and a long term commitment by the
researchers involved as well as the organisations with which they
would need to cooperate. Should these difficulties be overcome those of the financing of the project and the question of whether or not the South African government itself would permit such a study to be undertaken would still remain.

The second solution is to conduct a detailed investigative study based on research into a limited selection of firms with interests in South Africa. While it would not be possible to generalise from such a study, the findings from this type of investigation would certainly provide the basis for a deeper understanding of the contribution of foreign enterprise to South African development.

Such a study should not, however, be conducted at a superficial level. The overall contribution of each form selected must not only be assessed in terms of the conventional variables of analysis, listed in the ensuing chapters, but also in terms of, for example, managerial ethical and political perceptions, the implications of the adoption of codes of conduct, and so on.

Such a study has not been previously undertaken within the South African context using both development theory and corporate strategic analysis. Thus, a study of this nature would encompass a wide range of economic variables. However, these cannot be considered in isolation. It is necessary to examine the political contribution of the international firm which flows, in part, from its economic role.

The political aspect is inherent in the mere presence of the firm through the politicisation of foreign enterprise operating in South Africa. This has occurred not only through the change in strategic perceptions of such organisations but also through the ideological
crisis induced within the Republic itself through the emerging conflict between political philosophy and the necessity to sustain high levels of economic growth to absorb an increasing labour force and maintain current living standards in addition to the strategic requirements arising from threatened economic isolation, however ineffective in the past.

Thus, while firms operating in South Africa may not wish to become involved in the political process itself, a change in perception has occurred as regards their traditional role. This change has resulted in several foreign firms adopting the European concept that business enterprise has a positive role to play in society. However, this interrelationship between business and society in South Africa is made more complex by the lack of clear definition of what society in South Africa sees as the function of business enterprise. This is, in part, the result of a lack of a clear indigenous economic/political philosophy such as has been developed in the countries of Europe, albeit from certain common roots. This lack of an indigenous philosophy as to the relationship between the political and economic elements of society has affected many other countries in Africa.

The policy adopted by the state has been one of encouraging free enterprise. Nevertheless, this has been tempered by ready intervention where this has been seen as being necessary. Such intervention is often at an informal level where, for example, a senior member of the management of a foreign firm may be advised of the government's wishes through a reliable third party with ready access to senior figures in the civil service or Nationalist Party. In many instances such individuals are utilised by firms wishing to enter the South African
market as non-executive directors or "wise owls" to guide the company in the subtleties of its new environment.

At a more formal level the state may exercise its control through the activities of such parastatal organisations as the Electricity Supply Commission and the Iron and Steel Corporation. It is, however, comparatively rare for legislative controls to be used directly to govern the activities of private enterprise. This should not be interpreted as meaning that there is little control of the private sector in comparison with European countries. The control, perhaps because of the smaller size of the economy, is more subtle.

Because of the nature of political change taking place in South Africa where political philosophy is not as closely tied to economic doctrine as in other countries with the Nationalist Party finding difficulty in adapting its philosophical base to accommodate economic development, foreign firms have found themselves in the position of being used as political instruments by the opponents of apartheid encouraging withdrawal, Black trade unionists wishing to establish a legitimate and credible base for political comment, the South African government wishing to demonstrate the degree of international confidence in the economy and, by implication, the country as ruled by the Nationalist Party and other pressure groups wishing to achieve various diverse aims.

This politicisation of the economic and commercial activities of foreign enterprise investing in the South African economy has placed management abroad in the position of having to consider in some detail the political implications of what would, in normal circumstances be straightforward decisions of commercial strategy. The pressures placed on individual firms have varied greatly as have the strategic responses
of the firms affected.

Again, an investigative study into the strategic response by management to the politicisation of the activities of the organisation and the implications of this for the development of South Africa would be of considerable interest. However, a problem similar to that of developing a feasible study of South Africa's dependence on foreign direct investment emerges, namely, that of both the number and complexity of the variables to be examined.

It is within this context that the researcher approached several British manufacturing firms with long-term interests in South Africa with the idea of conducting research into the nature of the strategic response of particular organisations to what they perceived to be their economic and political role in the development of South Africa and the implications of this for the Republic. Following a brief period during which the researcher had to convince the organisations concerned of his intentions and allay certain fears as to the use to which such research would be put, the idea was well received and the wholehearted support of those approached was secured.

1.2 THE OBJECTIVES OF THE STUDY

The objectives of the study may be listed as follows:

a. To conduct an investigative study into the interaction between foreign direct investment in the Republic of South Africa and the economic and political determinants of economic development within the context of the strategies adopted by investing organisations.
b. On the basis of such a study to attempt a normative assessment of the role of the multinational corporation in economic development.

c. To bring into consideration such aspects of the strategic evaluation of the firm as the influence of management perceptions of the ethics of investment in South Africa, the assessment of political risk in areas of high economic growth, and the influence of regional, industrial and political dependence on South Africa which have not been given sufficient attention in the literature.

d. Given the nature of such regional dependence on South Africa to expatiate the implications of such development on Southern Africa as a whole.

To achieve these objectives the argument is structured within a framework of seven chapters and an appendix contained in two volumes. It is useful to examine this structure in detail.

1.3 THE STRUCTURE OF THE ARGUMENT

The argument is broken down into two elements. The first, including Chapters Two to Five, forms a literature based discursus which develops a perspective of the African environment within the context of current approaches to the analysis of the South African socio-political and economic structure. The multinational corporation is then introduced into this and a method for the development of a three-dimensional strategic-developmental taxonomy allowing an assessment of the developmental role of such firms is proposed.
Chapter Two is essentially definitional and examines the meaning and objectives of economic development suggesting the areas in which contemporary orthodox economic theory demonstrates weaknesses in analysis of the problems in the economic development of the industrialising nations.

Chapter Three argues that Southern Africa has yet to achieve its full economic potential and focuses the argument on the economic development of the Republic. The positive correlation between the economic and political elements of development are expatiated and South Africa's political development related to the origins of the Afrikaner identity. The chapter concludes by expanding on South Africa's relationship with her neighbours in order to suggest some of the wider implications of economic development as defined.

Chapter Four serves to introduce the multinational corporation in terms of its emergence since the Second World War and, more specifically, since the early 1960's. The emergence and politicisation of the multinational in South Africa is considered as fundamental to the approach developed given the methodology developed in the following chapters.

Chapter Five is partially methodological and suggests a strategic-developmental taxonomy founded upon a trichotomous classification of multinational strategic approaches to the socio-political and economic imperatives facing the firm.

The second part of the study, Chapters Six and Seven as well as the Appendix contained in Volume II, comprises the empirical element in which the strategic responses of foreign firms operating in the Republic are studied by means of the analysis of a series of extended
interviews with senior executives of international firms operating in South Africa. The developmental role of these organisations is then assessed in terms of a strategic-developmental taxonomy. The study focuses on the developmental role of long-term foreign direct investment by British multinationals and this is contrasted briefly with the strategic approach adopted by a large South African multinational.

A series of case studies in which the researcher has drawn on a variety of sources are developed in the Appendix. These compare the contribution of the firms above with that of a number of other organisations whose commitments to particular projects are short-term and not necessarily manufacturing.

Chapter Six focuses on the perceptions of senior executives as to the nature of the South African environment as part of Africa and the moral dilemma facing management abroad as regards investment in the Republic. Such interviewee identified determinants of strategy as host country culture and business style are expatiated and a strategic profile of each organisation developed.

Chapter Seven, the concluding chapter, utilises the preceding discussion to place firms within a three dimensional strategic-developmental taxonomy to assess this developmental role in terms of the objectives established in Chapter Two. It then examines the wider ramifications of this role in terms of the criteria established in preceding chapters.

The Appendix, contained in Volume II, briefly examines how other types of multinational corporation may influence the development process in a negative manner.
It is hoped that by adopting the approach outlined in this chapter this dissertation is concise yet of both industrial and academic interest.
CHAPTER TWO
APPROACHES TO THE ANALYSIS OF ECONOMIC DEVELOPMENT

2.1 INTRODUCTION

The ensuing paragraphs have a threefold definitional objective. Firstly, as stated in the preceding chapter, they attempt an assessment of the relevance of contemporary orthodox economic theory to the economic realities of the developing countries. This is done by examining the characteristics of what Seers terms "the special case" in relation to the characteristics of the less developed countries thereby bringing into question the assumptions upon which orthodox economic theory is founded. (Seers, D., 1963.) Secondly, a pragmatic system of international economic classification based on the Beckerman and Bacon approach is advocated. (Beckerman, W. and Bacon, R., 1966.) As will be argued, the reason underlying such advocacy rests with the difficulty of using per capita national income in international comparisons of economic development and economic welfare. Finally, there is a statement of what the researcher believes the objectives of development to be as well as some of the inherent assumptions made based on a rejection of the positivist approach to the problem of economic development. As will be discussed in succeeding paragraphs, any approach to development must involve certain normative judgements. This applies particularly if the problem is to be seen as a part of a heterogenous whole including the historical, cultural, social and political determinants of the overall level of development. It is convenient to demonstrate the nature of these subjective judgements in a discussion on the polemics of development. The nature of these values will be discussed recurringly throughout this dissertation, as
is in fact demonstrated when an operational definition of the term "development" is attempted.

2.2 THE DEFINITION OF DEVELOPMENT

The literature on development abounds with both euphemism and polite epithet. Szentes, for example, makes this point when he comments that "it is, of course, rather strange to use the phrase 'developing countries' when in fact this term refers precisely to the least developing part of the world". (Szentes, T., 1976: p.13.)

Several writers point out that the phrase "developing countries" implies some form of economic development while "underdeveloped" or "undeveloped" both imply some inherent developmental potential unfulfilled. More recently the phrase "less developed countries" has come into vogue. This is perhaps a more realistic statement of the level of economic development. However, it has been reduced to "LDCs", a fact that some writers such as Kindleberger and Herrick deplore as being both "clinical and dispassionate" and a result of man's natural tendency to keep an "awkward or difficult situation at bay by the substitution of initials for a name". (Kindleberger, C.P. and Herrick, B., 1977: p.4-5.) Such a reduction is, however, more acceptable than the post-war term "backward". It also has the advantage of being an objective statement of fact without subjecting any analysis to the initial assumption that a country is developing when, as Thirlwall has demonstrated, it may be faced by an ever widening development gap. (Thirlwall, A.P., 1970: pp.33-37.) Thus, rather than any euphemistic statement of wishful thinking, this dissertation uses the initials "LDC" in recognition of the reality of the failure in the second development decade to raise some forty per cent of the population of these countries above the
poverty line. (Meier, G., 1976: p.1.)

"The Third World" is often used as an alternative to the above. However, while the LDCs might constitute the Third World, this term is more a statement of political and ideological non-alignment. Thus, this term will be avoided unless there is a necessity to stress the commitment to this ideal of a nation or group of nations.

Having briefly outlined the terminology to be used it is possible to attempt a definition of "development" and in so doing enter into an extremely controversial area. It is necessary to do so, however, for it is only when we dispel the uncertainty around the word "development" and decide more precisely what we mean by it that we will be able to devise meaningful targets or indicators and thus help improve policy, national or international.

The starting point for any such definition is the recognition that it is extremely difficult to avoid what the positivists somewhat disparagingly refer to as "value judgements". Development is a normative concept. This point is emphasised by Colman and Nixson when they describe development as follows: "Development can be considered either as a process of improvement with respect to a set of values or, when comparing the relative levels of development of different countries, as a comparative state of being with respect to such values". (Colman, D. and Nixson, F., 1978: p.2.) The values in question relate to the desired conditions in society. There is no universal agreement about what these desired conditions should be as individuals have different preferences as regards their desired lifestyle, and their relationships with the rest of society. Secondly, through their political manifestoes nations express different collective views about the desired state of
society - views which change through time. Inevitably, therefore, the rate or relative level of a country's development is a normative concept and its definition and measurement depends on the analyst involved.

The assertion that development is a normative concept that will be measured differently by different people is a serious charge, but it is one which affects all areas of the social sciences. Myrdal observes that "value premises are needed even in the theoretical stage of establishing facts and factual relationships. Answers can only be given when questions have been asked. A view is impossible except from a viewpoint". (Myrdal, G., 1970: p.42.) Thus, it has to be recognised that value judgements are inescapable elements of the social sciences in general and development economics in particular. This is because a central aspect of the subject of development economics is to formulate criteria for development and also because many of the commonly chosen criteria are difficult to define and measure. There is, therefore, considerable scope for judgemental disagreement about:

- what development in fact is:
- what its goals are;
- what the relationships between its aims are.

(Colman, D. and Nixson, F., 1978: p.3.)

There has recently been extensive debate in the literature on these points. However, this debate, while demonstrating the existence of disagreement about how development is caused and what weights should be assigned to specific goals, nevertheless demonstrates a broad measure of agreement about the main objectives of development. This measure of agreement is not surprising if, as according to Seers, "..... the values we need are staring us in the face as soon as we
ask ourselves: what are the necessary conditions for universally accepted aim, the realisation of the potential of the human personality?". (Seers, D., 1972.) Based on this value premise Seers identifies a number of objectives of development in the LDCs. These are:

a. family income should be adequate to provide a subsistence package of food and clothing;

b. jobs should be available to all family heads;

c. that access to education should be increased and literacy ratios should be raised;

d. that the populace be given an opportunity to participate in government;

e. that national independence should be achieved in the sense that "the views of other governments do not largely determine one's own government's decisions".

As progress is made towards the economic goals, Seers argues, the educational and political aims become more important.

Seer's list of development criteria is similar in basic respects to those suggested by others. Myrdal, for example, adopts as "instrumental value premises" certain modernisation ideals which are:

a. rationality;

b. development and development planning;

c. a rise in productivity;

d. a rise in levels of living;

e. social and economic equalisation;
f. improved institutions and attitudes;
g. national consolidation;
h. national independence;
i. democracy at the grass roots;
j. social discipline. (Myrdal, G., 1970.)

To Streeten "development means modernisation and modernisation means the transformation of human beings. Development as an objective and development as a process both embrace a change in fundamental attitudes to life and work, and in social, cultural and political institutions". (Streeten, P., 1972: p.30.) More specifically Streeten views the process of development in terms of progress in a number of interrelated institutions, namely:

a. output and incomes;
b. conditions of production;
c. levels of living;
d. attitudes to work;
e. institutions;
f. policies. (Streeten, P., 1972: p.15.)

This all supports the assertion that the criteria for development are largely self-evident, and it thus becomes increasingly clear that development is a multidimensional process or set of objectives in which the dimensions are economic, social, political and cultural in the widest sense of these terms.

Having defined the objectives of development it is possible to examine the relevance of orthodox economic theory to the development problem given the basic characteristics of the LDCs.
2.3 THE RELEVANCE OF CONTEMPORARY ORTHODOX ECONOMIC THEORY

The underlying assumption of the following discussion is that theory is "in the first and last place a logical file of our factual knowledge pertaining to a certain phenomenological domain". (Georgescu-Roegen, N., 1960, excerpted in Meier, G., 1976: p.59.) Thus, "to each theory, ......, there must correspond a specific domain of reality". (Georgescu-Roegen, N.: Op.Cit.) In any science the problem of precisely circumscribing this domain involves several difficulties. However, the ensuing paragraphs are concerned with the question of whether or not an economic theory which successfully describes one economic system can be used to analyse another such system equally successfully. (Georgescu-Roegen, N.: Op.Cit.)

Human societies vary with both time and locality. One school of thought argues that these variations are different instances of a unique archetype and that consequently all social phenomena can be encompassed by a single theory. It is beyond the scope of this dissertation to show where the weaknesses of the various attempts in this direction lie, suffice it to say that when the theories do not fail in other respects they are nothing but a collection of generalities of no operational value whatever. For an economic theory to be operational - to be capable of serving as a guide for policy - it must concern itself with a specific type of economy, not with several different types at the same time.

This is demonstrated by the increasing criticism of existing Western economic theory which, it is argued, tends to be intimately tied up with the special conditions, problems, and preconceptions of the industrially advanced nations to such an extent that large portions of
it have to be abandoned before it is possible to develop an understanding of the LDCs. This criticism may be classified into three main types: (Myint, H., 1967: pp.119-121, 123-127.)

a. Firstly, the "realism" of attempting to apply the standard models of theoretical analysis meant for the advanced countries to the different economic and institutional settings of the LDCs is questioned;

b. Secondly, critics question the relevance of static neoclassical economics concerned with the problem of allocating given resources within an existing economic framework to the problem of promoting economic development in the LDCs which are more concerned with increasing the amount of available resources, improving techniques, and generally with the introduction of a dynamic self-sustaining process of economic change disrupting the existing framework;

c. Thirdly, it is argued that orthodox economic theory is inextricably bound up with preconceptions and biases in favour of orthodox economic policies of laissez-faire free trade and conservative monetary and fiscal policies which are believed to be inimical to rapid economic growth.

While these criticisms form extremely serious charges they do not, as such economists as Bauer and Myint point out, justify the total rejection of orthodox economic analysis. (Bauer, P.T., 1967: pp.111-116; Myint, H., 1967: pp.119-127.) Rather, the basic tools of analysis must be retained for they form the foundation upon which any model of
a developing economy must be based. Such fundamentals of analysis include matters such as the treatment of supply and demand as being functionally related to price, of cost as opportunity cost, the theory of relative prices, the implications of the theory of comparative advantage, and the functional relationships between the flow of money incomes, the volume of employment, and the balance of payments.

Thus, any sound theory pertaining to the nature of development must take fully into account the characteristics of the country concerned, be based upon a full understanding of the fundamental principles of analysis and must avoid any danger of generalisation such as the tendency to either apply "Western" analysis to the LDCs or to, as is so often done, use India as the basic model to which all LDCs are assumed to conform.

The preceding paragraphs demonstrate the importance of a full understanding of the economic, political, social, cultural and historical dimensions of a society before there can be any effective statement of the development problem. It is these dimensions that form the basic assumptions of any macro-economic analysis of such economies. To make this more explicit it is useful to consider the characteristics of what Seers terms "The Special Case". (Seers, D., 1963: pp.77-98.)

Table 2.1 lists some of the more important characteristics of the "special case" and thereby establishes the specific assumptions of any theory pertaining to them. In brief, what is assumed is an autonomous and flexible socio-economic structure in which each human being responds individually to the incentives offered and which is subject to no formidable exogenous strains. As has been pointed out, there are certain fundamental principles which have a general validity. However, the
### TABLE 2.1 CHARACTERISTIC FEATURES OF THE SPECIAL CASE

#### I. Factors of Production

a. **Labour.** Literate and mobile, mostly in employment; highly organised; racial, religious and linguistic differences not sufficiently important to break up the labour supply; substantial quantities of skilled and professional workers.

b. **Land.** Most available land cultivated, and by private owners (or farmers with secure leaseholds) in plots of economic size.

c. **Capital.** All sectors heavily capitalised, with spare capacity; integrated and comprehensive systems of transport and power.

d. **Enterprise.** A wide field from which entrepreneurs can be drawn, and a favourable climate for enterprise; firm legal basis for corporation.

#### II. Sectors of the Economy

a. **Agriculture.** Wholly commercial, and flexible in response to price changes or technical advances; foreign ownership rare; extensive marketing network for foods.

b. **Mining.** Of limited size and in the hands of local firms.

c. **Manufacturing.** Diversified, with a large metal-using industry producing (inter alia) machinery and vehicles; some areas of competition.

d. **Overall.** Manufacturing much larger than either agriculture or mining; natural resources adequately surveyed.

#### III. Public Finance

a. **Revenue.** Strong reliance on direct taxes relative to import or export duties; tax laws enforceable.

b. **Expenditure.** Includes big outlays on social security and agricultural subsidies, relatively little on public works.
TABLE 2.1 (continued)

IV. Foreign Trade

a. **Exports.** Consist of several products for which there is a large internal market, and for which price and income elasticities are fairly high; export prices determined by local costs and stable; exports sold to many countries.

b. **Imports.** Consist largely of primary products (some of which are also produced domestically) which come from many countries, and for which the income elasticity of demand is not high.

c. **Capital.** Long-term capital flows and profit remittances of secondary importance.

V. Households

a. **Income.** Distribution moderately equal (post-tax); very few living at subsistence level.

b. **Expenditure.** Food not overwhelmingly important; standardisation and mass production possible, because of equal distribution of income; national promotion and homogeneity of tastes; prestige of local manufactures high.

VI. Savings and Investment

a. **Savings.** Mobilised by a capital market, comprising a stock exchange, a bond market and an extensive nationally owned bonding system, with a central bank and a managed currency; personal savings significant.

b. **Investment.** High (probably over 20 per cent of G.D.P.), but import content very low.

VII. Dynamic Influences

a. **Trade.** No chronic tendency to deficit because of income elasticities (see above).
TABLE 2.1 (continued)

b. Population. Growth of population slow (less than 2 per cent a year), and urbanisation relatively moderate.

c. Asperations. Envy of foreign living standards not high, or spreading as a cause of discontent.

(Source: Seers, D., 1963.)
macro-economic policy aspect is another matter. Streeten, for example, points out four systematic biases in any macro-economic model of an LDC based upon the assumptions of orthodox economics. (Streeten, P., 1972: pp.52-59.) These are:

a. adapted ceteris paribus or automatic mutatis mutandis;
b. one-factor analysis;
c. misplaced aggregation;
d. illegitimate isolation.

Seers, however, makes these more explicit when he shows that the major inadequacies of orthodox economics for those dealing with the "typical case" are that analysis focuses on the wrong factors and that models do not fit at all closely the way in which non-industrial economies operate. For example, one respect in which analytical emphasis is inappropriate is in that although time can often be ignored when deriving propositions for developed economies it cannot in economies which are not developed. Consequently purely static propositions are mostly irrelevant if not actually misleading. (Seers, D., 1963: pp.77-98.)

A second error in emphasis is that insufficient attention is paid to the social structure, the existence of foreign firms, disparities between regions, etc. It is arguable how much such factors hamper progress in industrial countries, but, there can be little doubt that they are far more serious as obstacles to growth in the LDCs. Orthodox economics contains little discussion of the economic implications of policy tools such as land reform, nationalisation, raising the educational level of the adult labour force, etc. Institutions are taken as given whereas the question is precisely what institutions to change and how. (Seers, D.: Op.Cit.)
Thirdly, improvements in nutrition, housing and health services are treated, if at all, as increases in consumption rather than as influences on output. This is understandable in societies where economic progress is not conditional upon the raising of the quality of labour. (Seers, D.: Op.Cit.)

Another basic difference between the developed economy and that of many of the LDCs is that activity and employment in the non-industrial economy depends very much, in both the long- and short-term, on the export sector. Moreover, the nature of the response to changes in exports depends on the organisation of this sector, especially whether taxes, profits of foreign companies, or peasant incomes form the highest share in increments in income. It also depends on the type of product (particularly whether there is any significant domestic market). The role of the export sector is rarely stressed in conventional economics. The reason for this is that in an industrial economy hardly any sector sells the greater part of its output overseas. The Swiss and Japanese economies are possible exceptions to this. Thus, non-industrial economies such as Zambia (copper), Botswana (cattle, diamonds, copper) or industrialising economies such as South Africa (gold, diamonds, coal, etc.) cannot be understood unless studied within the context of the world economy. The sales of their particular primary products and, therefore, their development are determined by:

a. the rate of growth of the industrial economies that buy from them;

b. the income elasticities of demand for the commodities they export (which reflect, inter alia, the substitution of artificial materials for natural ones);
c. protective measures which limit imports into industrial economies;

d. influences on the distribution of the remaining markets between various suppliers.

While the industrial economies of the West do not absolutely require this approach, it is essential if the economies of primary exporters are to be understood. The development of these countries may become, however, partly independent of export performance. This implies import substitution which involves for these economies the founding of completely new manufacturing industries. This in turn requires investment in transport, energy, education, etc. and involves a shift in the composition of exports. But, the substitution process eventually reaches a limit which is set by natural resources and the size of the local market. However, this process tends to be ignored in conventional economics which thereby fails to recognise one of the essential characteristics of development.

Finally, it is necessary to examine some of the peculiarities of the monetary and fiscal sectors which affect the operation of the economies of the LDCs. For example, because of the weight of direct taxes and the scale of unemployment benefits, the public sector automatically compensates, in some measure, for fluctuations in the private economy. In the LDCs, on the other hand, a slump in trade can rarely be overcome by pushing the budget into deficit because the only means of covering it will probably be to run down reserves. Thus, the government may in time be compelled to raise taxes or reduce outlays thus aggravating the initial downward impulse. Secondly, while all industrial economies have virtually complete monetary autonomy, this is not universally true.
Even the larger LDCs, which manage their own currencies, lack many of the means of influencing the supply of money such as open-market operations. In addition, foreign companies and banks, which draw finance from, or supply it to, these economies, may be quantitatively important and their operations may affect the money supply more than any step taken by the local central bank. Thirdly, because of their financial systems, industrial economies have boundaries corresponding to their political frontiers. However, when other economies are examined it is important to question whether the nation is the correct unit of analysis at all. If monetary and fiscal systems are very tenuous graphical, racial, or religious barriers may seal off parts of the nation into virtually self-contained sub-economies. For this reason, national averages may have little meaning, whether used for comparison with other countries or for measuring progress over time. However, this is discussed below.

The argument demonstrates that there are severe limitations to orthodox economic analysis when applied to economies other than those for which it was developed. However, as has been pointed out, this does not entail a complete rejection of any theory applied to an economy based upon different characteristics to those of the more industrialised western economies. Rather, it suggests the acceptance of the fundamental principles and the use of these in analysis based upon the recognition of the substantial differences between the national economies of the world. Once this principle is accepted it is possible to advance to a more successful attempt to develop a policy which gives due recognition to the reality of the nature of the development problem involved.
2.4 MEASURES OF ECONOMIC DEVELOPMENT

This section examines some of the major problems associated with the use of per capita gross national product as an ordinal measure of the level of economic development of the LDCs. In particular it aims to develop a basis for the classification of the LDCs by means of regression and correlation analysis and overcome some of the problems associated with the various other existing methods of classification. To do this it is convenient to start with a discussion of the measurement and comparability of per capita gross national product or per capita income.

The difficulties of obtaining meaningful and accurate measures of real per capita income relate more to the measurement of real income than to population. It is for this reason that it is necessary to concentrate on the problems of national income accounting and the use of national income statistics.

Firstly, if no allowance is made for the non-monetary sector in the national income accounts any long-term growth estimates are bound to have an upward bias owing to the gradual extension of the money economy and the shift of economic activities from the household to the marketplace. Furthermore, if no allowance is made for the subsistence sector in some countries it may be misleading to compare periods in these countries' history and to compare growth rates between countries, especially between the developed countries and the LDCs.

Growth rates may also be biased upwards by using prices as weights in compiling national income totals from the output statistics of different sectors of the economy (unless the weights are revised frequently)
since goods with high prices which subsequently fall are usually the fastest growing. This is far more of a danger in the LDCs than the developed countries because of less sophisticated accounting techniques, the greater difficulty in revising price weights and the more widespread introduction of new goods with high initial prices.

A consideration of prices is also necessary in deciding what price index to use as a deflator of money national income in order to obtain an index of real income. The task of converting money income statistics raises several difficulties connected with the use of index numbers.

A major difficulty concerns the understatement of living standards in the LDCs when their national incomes measured in local currencies are converted into U.S. dollars at the ruling rate of exchange. This assumes a parity of purchasing powers. Exchange rates, however, are largely determined by the supply of and demand for currencies based on the goods which are traded, the prices of which tend to be equalised internationally. Purchasing-power parity depends not only on the price of traded goods, but also on the prices of non-traded goods which are largely determined by unit labour costs which tend to be lower the poorer the LDC involved. In general, therefore, the lower the level of development the lower the ratio of the price of non-traded to traded goods and the more the use of the exchange rate will understate the living standards of the country measured in U.S. dollars. The ratio of the price of non-traded goods to traded goods tends to rise with development as wage levels in the non-traded goods sector rise while productivity growth is relatively slow and slower than in the traded goods sectors. To make meaningful international comparisons of income and living standards a measure of purchasing-power parity is required.
There are several methods of constructing purchasing-power parity ratios in order to make binary or multilateral comparisons in which the currency of any one group of countries can act as the unit of account without altering the ratios of living standards between countries.

One approach to the construction of a purchasing-parity ratio between two countries is to revalue the national incomes of the two countries by selecting a comparable basket of goods, and services in each country and estimating the purchasing power equivalent of each item in county A relative to country B. Thus, if \( P_{ia} \) is the price of item i in country A, and \( P_{ib} \) is the price of item i in country B, the purchasing-power equivalent of item i in Country A relative to country B is \( P_{ia}/P_{ib} \). By extending this calculation to all goods and applying the price ratios to the average quantities of each item consumed in the two countries a formula for the overall purchasing-power equivalent in country A relative to country B is obtained:

\[
\frac{\sum Qi P_{ia}}{\sum Qi P_{ib}}
\]

where Qi is the geometric mean of the quantities of each good consumed in the two countries.

The result can then be used to convert one country's national income measured in local currency into another country's currency.

This method is only one of several possible approaches to the construction of a binary purchasing-power parity ratio. For example, instead of the quantity weights applied to relative prices being a geometric
average of the two countries' weights they could be the quantities consumed in either one country or the other. If the quantity weights of the poor country are used, the dollar valuation of the LDC's income would probably be even higher because relatively large weights would be given to those items which are widely consumed in those countries with low relative prices thereby improving the purchasing-power parity ratio. Alternatively, comparisons can be made from the output side by valuing output in both countries either at one country's prices or the other's.

The results of constructing and using purchasing-power parity ratios for making binary comparisons have been dramatic. Millikan (Millikan, M. cited in Kindleberger, C., 1965: p.9), for example, has suggested that the real incomes of many African and Asian countries in 1950 were in the order of 350 per cent larger than indicated by U.N. statistics in U.S. dollars per capita. Similarly, Usher has estimated that the ratio of British to Thai national income per capita is 13.06 when Thai income in local currency is converted into pounds. (Usher, D., 1966: pp.10-11.) However, if Thai incomes are valued directly at Thai prices the ratio falls to 2.76. (Thirlwall, A.P., 1978: p.26.)

Apart from the construction of purchasing-power parity ratios there have been several other attempts to overcome the problems of using suspect national income statistics to compare living standards between countries and over time. One approach makes use of non-monetary indicators such as levels of health and education, number of cars per capita and steel production to rank countries according to an index of each indicator. The indices of all the indicators are then averaged. This approach, however, suffers from the major drawback that there is no satisfactory weighting system that can be used for combining different indices.
An alternative approach is suggested by Beckerman and Bacon which they suggest is "theoretically valid, potentially very accurate and at the same time almost costless". (Beckerman, W. and Bacon, R., 1966: p.521.) The approach is based upon correlation and regression analysis and the procedure adopted may be summarised as follows:

a. Firstly, they take reliable estimates of relative (to the U.S.) real consumption per capita for thirteen countries;

b. They then take several non-monetary indicators and select those that correlate best with reliable observations of real consumption per capita, experimenting with different functional forms.

c. Finally, with the aid of a computer, they determine which combination of indicators and which forms of equations linking them to real consumption per capita give the best results in terms of the multiple correlation coefficients and standard errors of regression equations.

From the best results it is possible to make predictions of relative consumption per capita for countries, where data on income per capita are thought to be unreliable, from the non-monetary independent variables.

The variables used as predictors are:

a. Annual crude steel consumption per capita;
b. Annual cement production per capita;
c. Annual number of domestic letters sent per capita;
d. Stock of radio receivers per capita;
e. Stock of telephones per capita;
f. Stock of road vehicles per capita;
g. Annual meat consumption per capita.

Predictions are made by Beckerman and Bacon for eighty countries and the countries ranked. (Beckerman, W. and Bacon, R., 1966: p.533.) It is generally conceded that this approach is the most appropriate to adopt for obtaining a measure of comparative levels of welfare between countries as measured by consumption per capita.

2.5 CONCLUSIONS

This chapter has advocated a normative approach encompassing the cultural, historical, social and political aspects of LDCs. It has, thus, been based on a rejection of the positivist approach to the problem of economic development and therefore implicitly recognises the need for value judgements in the various approaches to the analysis of development and the determination of economic policy. The relevance of contemporary orthodox economic theory to the problems of development in particular countries has also been questioned.

Ensuing chapters therefore take an eclectic approach to defining the parameters of the South and Southern African development problem and the strategic approach of the multinational corporation to direct investment in this region. In doing this certain value judgements are made explicit. For example, it is argued that economic growth stimulated by foreign direct investment results in an implicit choice between further growth or the continuation of a certain political ideology. The context within which the problem is framed suggests that foreign direct investment is good as it leads to growth which, if it is to be
maintained, implies the weakening of an ideology which is considered
inimical to the development of all South Africans. Such pressure is
brought about, for example, by multinational corporations being forced
to accept and recognise unregistered trade unions which are at the
forefront of political change. The point will be argued in the follow­
ing chapters, suffice it to say that clearly certain value judgements
are unavoidable when considering the role of the multinational corpora­
tion in economic development as it has been defined in this chapter.

Chapter Three examines the origins of South African political and
economic development in terms of the origins of Afrikaner nationalism
and then goes on to examine economic and political relationships within
the region in terms of the dependencia approach.
3.1 INTRODUCTION

Southern Africa's latent development potential has been the subject of considerable research by both academics and industrialists. Dr. von Menges of Mannesman, for example, commissioned a private commercial study in January 1979 to examine the feasibility of a common energy and transportation system which would be financed by a capital inflow of $1 billion into the region, while Dr. Henry Olivier, an internationally respected hydrologist, has suggested a scheme whereby a number of the region's transportation problems could be solved by using the Zambezi to move goods from Zambia and Zimbabwe through Mozambique to the coast. (Olivier, H., 1977: pp.18-23.)

The late Sir Seretse Khama of Botswana, in a discussion on the Southern African Development Coordination Conference, provided a useful aperçu of Southern Africa's development problem. He stated that "although individually small and economically weak, collectively our nine states, together with the yet to be freed Namibia, are not insignificant. We speak for 60 million people living in an area of 5 million square kilometres, with an aggregate GDP of U.S. $20 billion even in our present underdeveloped condition. We have within our borders the raw materials for industrialisation - energy and base metals. We have energy in the form of oil, coal, uranium, hydroelectrical power and, of course, limitless solar energy when it can be harnessed; and we have base metals such as iron, copper, nickel, cobalt, chrome, lead, zinc. Add to these our diamonds and gold and the wide variety of our agricultural products including cotton, sisal, tea, coffee, tobacco,
sugar, wool, maize, wheat, leather, beef, wood pulp and mohair. Given
the political will established at Lusaka and the cooperation of invest­
ment exporting countries, greater economic self-sufficiency for each
of our countries and for the region as a whole is a realizable objec­

The failure of the region to achieve its true potential may be partially
assigned to the lack of political will referred to by Sir Seretse.
However, a number of other factors have to be considered which have a
direct effect on the policy and planning process of the multinational
corporation operating in the region.

Before there can be a definitive statement of policy by a multinational
corporation considering entry into a particular country, there must
exist within the corporation concerned a sound assessment of the ideo­
logical, economic and social effects of that country's policies inter­
ationally, regionally and internationally as well as the effects of these
on the multinational should entry be seriously considered. In addition,
"any serious attempt to understand what they (multinational corporations)
are doing or the meaning of what they are doing involves a journey into
politics, sociology and psychology as well as economics". (Barnet, R.J.
and Müller, R.E., 1975: p.7.)

This chapter, therefore, examines the economic and political development
of South Africa by means of the interrelationship between sustained
growth and its implications for social and institutional change. This
is done by means of a brief comment on the origins and present political
power of the Afrikaner. To do this it is necessary to examine the power
of the ethnic mobilisation of the Afrikaner and the changing nature of
the Southern African political, philosophical, economic and strategic
environment resulting in the obsolescence of this as an ideology and the search for a new commitment which, in turn, will have a direct effect on the policies and planning of multinational corporations entering the region and those already there. It is within this framework that the role of the multinational corporation in the economic development of Southern Africa will be analysed in later chapters.

Finally, this chapter discusses the economic and political dependency of other countries in the region on South Africa in terms of a Marxist approach to dependencia. This is of fundamental importance to developing an understanding of both South African regional political and industrial policy and the locational strategies of firms operating in the region.

Firstly, however, it is necessary to define what is meant by South and Southern Africa.

3.2 SOUTHERN AFRICA DEFINED

When considering the role of the multinational corporation in South African development it is necessary to develop a definition of the region which takes into account both the economic and political elements of regionality as well as the desiderata of multinational strategic planning.

The discussion in the next chapter, for example, is based on international trade being defined as the act or business of buying, selling or bartering goods and/or services between international companies, divisions of international companies, or between nations, individuals, or companies within the trading nations when the goods or services have to cross borders that the governments of those nations delineate
and which the prospective trade participants must recognise if they are to be permitted to trade, or which they must recognise, overtly or otherwise, in their trading strategies. Foreign direct investment may be similarly defined.

Thus, it is necessary for the multinational corporation operating in the region to recognise such entities as the Republic of Venda, Transkei or Bophuthatswana as being part of Southern Africa although they may not be recognised internationally as they are regarded as being unacceptable artificial creations of the South African policy of separate development. International anomalies do emerge. Botswana does not recognise the existence of the Republic of Transkei and yet together with the Transkei it forms part of the Southern African Customs Union.

Dr. R. Tusenius, at the first Southern Africa Economic Convention held in Johannesburg in 1979, produced a workable definition of what is meant by South and Southern Africa which takes into consideration some of the difficulties outlined in this section. (Tusenius, R.R., 1979(1): pp.2-6.) An adapted version of this is reproduced in Figure 3.1. Figure 3.2 provides an overview of the present political, constitutional and diplomatic framework of Southern Africa today as well as the present situation in relation to economic, technical and associated matters.

At present political considerations prevent South Africa from making a full contribution to the development of the rest of Southern Africa on the economic, scientific, technical and agricultural fronts. This is for two reasons. Firstly, the unacceptability of South Africa's internal policies to other countries in the region. Secondly, the fear of South African hegemony through the inherent power of its economy.
FIGURE 3.1 WHAT DO WE MEAN WHEN WE TALK ABOUT SOUTH AND SOUTHERN AFRICA?

FIGURE 3.2 SOUTH AFRICA AND SOUTHERN AFRICA TODAY

UNITARY STATE
- CAPE
  - NATAL
- ORANGE FREE STATE
- TRANSVAAL

TOWARDS INDEPENDENCE
- CISKEI
- GAZANKULU
- KANGWANE
- KWAZULU
- LEBOWA
- NOEBELE
- QWA QWA

"BANTUSTANS" GRANTED
- NAMIBIA

INDEPENDENCE BY SOUTH AFRICA BUT ECONOMICALLY A POLITICALLY DEPENDENT AND NOT INTERNATIONALLY RECOGNISED BY ANY GOVERNMENTS
- VENDA
- BOPUTHATSWANA
- TRANSKEI

INDEPENDENT
- BOTSWANA
- LESOTHO
- SWAZILAND

ONE ECONOMY WITH RESTRICTIONS
- ZIMBABWE

CUSTOMS A (EXCEPT BOTSWANA MONETARY UNION
- ANGOLA
- MALAWI
- MOCAMBIQUE
- ZAMBIA
- TANZANIA

CLOSE TRADE AND ECONOMIC TIES

AD HOC TIES

The ensuing paragraphs examine the level of development of the South African economy in terms of the criteria laid down in Chapter One and relate this to South African political development.

3.3 SOUTH AFRICAN ECONOMIC DEVELOPMENT AND ITS SOCIO-POLITICAL EFFECTS

Tables 5.1 to 5.7 provide an indication of the level of development of the South African economy by means of the identification of certain of the key indicators of economic development suggested in Chapter Two.

As may be seen from Table 5.1 and Figure 5.5 South Africa has enjoyed a positive increase in its rate of growth as measured by real gross national product. However, when measured as real gross national product per capita there was a decline between 1975 and 1979. Despite the high overall increase in gross national product the South African economy is moving into recession following its traditional pattern of moving two years behind the Western European economies despite the cushioning effects of gold sales.

Table 5.2 shows South Africa as having the highest gross domestic product in Africa although it is only the third highest when measured per capita. This does not, however, reflect the extreme distribution of income between the traditional subsistence sector and those involved directly in the industrial development of the country. This will be discussed in ensuing paragraphs.

During 1977 the South African rail system carried a freight equivalent of 69,330 million ton kilometres. This was the highest level of rail utilisation of the countries in Africa for which statistics are available. It should be noted, however, that this figure includes freight from Zambia and all the countries bordering South Africa which rely
heavily on the South African transport and harbour system for their foreign trade because of the congestion at Dar-es-Salaam, difficulties with the Tazara railway and the sabotage of the Benguela railway by UNITA forces in Angola.

Table 3.3, although showing figures which are not strictly comparable, being based on different years, nevertheless indicates the relative levels of participation in education in various African countries. These figures indicate to a limited extent the dualistic structure of the education system in South Africa. The difference in number between pupils involved in primary education and those involved in secondary education is due largely to the number of Black pupils unable to afford the loss of earnings and the expenditure required in secondary education. It is also due to the limited number of places in schools and the shortage of trained teachers. It is not unusual to find Black teachers with only a standard eight school pass.

While such universities as the University of the Witwatersrand, Rhodes University, the University of Cape Town and the other "white" universities have international reputations for their research into nuclear physics, ichthyology, medicine and other fields, the "black" universities appear to still be building their reputations.

The education system has been subjected to considerable upheaval as a result of the politicisation of education by Black students in Soweto and other areas. However, this will be commented upon in ensuing chapters.
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Average annual growth:

1970-80    17.1          -      17.1          4.3       1.1
1975-80    17.9          -      18.0          3.4       -0.2
1977-78    14.7          -      14.7          3.2       -2.1
1978-79    19.7          -      20.2          5.5       -0.2
1979-80    29.8          -      30.0          9.7       1.4

At market prices
At constant 1975 prices
Table refers to the Republic of South Africa and South West Africa/Namibia
Preliminary

Sources: Industrial Development Corporation of South Africa, 1982
South African Reserve Bank
FIGURE 3.3 REAL GROWTH INDICATORS 1975 = 100

Index 1975 = 100

- Electric current generated
- Physical volume of non-gold mining
- Physical volume of manufacturing

Sources: Industrial Development Corporation, 1982
South African Reserve Bank
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<th>Persons per km²</th>
<th>Population Density</th>
<th>Gross Domestic Product</th>
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(1) 1972 (2) 1973 (3) 1970 (4) 1974 (5) 1975 - Not available or nil
(6) De Jure Population (7) Based on 1968 estimates (8) 1976

Source: Industrial Development Corporation 1982
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<th>Tertiary</th>
<th>Pupils and students as % of total pop.</th>
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<td>13.6%</td>
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* Only Primary  1) 1974  2) 1975  3) 1976  4) 1976 figures for South Africa still include Bophuthatswana and Transkei
Sources: United Nations Statistical Yearbook, Industrial Development Corporation of South Africa 1982 Department of Statistics
**TABLE 3.4** SELECTED ECONOMIC INDICATORS

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<th>Production of Iron and Cement (1,000 Metric Tons)</th>
<th>South African Railways Total Traffic 1,000,000 Ton-Kilometres**</th>
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<td>Escom million kWh sent out as % of Republic</td>
<td>Pig Iron</td>
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*) Pig Iron and Ferro-Alloys

**) Year ending 31 March

†) Estimates

Sources: Electricity Supply Commission 1981
Industrial Development Corporation of South Africa 1982
Steel and Engineering Industries Federation of SA
SA Railways and Harbours
### TABLE 3.5  ELECTRICITY GENERATION

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(1) Estimates of mid-year population
(2) Scope of series changes
(Provisional)

Source: Statistical Year-Book of the United Nations 1978
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<td>WORLD</td>
<td>14</td>
<td>362,070.0</td>
<td>285,660.0</td>
</tr>
</tbody>
</table>

** Only Commercial vehicles and passenger cars
* Provisional
  (1) 1976
  (2) 1975
  (3) 1974

Source: Statistical Year-Book of the United Nations 1978
### TABLE 3.7 PERCENTAGE ANNUAL AVERAGE CHANGE IN CONSUMER PRICES

#### INDUSTRIALISING COUNTRIES

<table>
<thead>
<tr>
<th>Year</th>
<th>South Africa</th>
<th>Australia</th>
<th>Canada</th>
<th>New Zealand</th>
<th>Venezuela</th>
</tr>
</thead>
<tbody>
<tr>
<td>1966-1972</td>
<td>4.1%</td>
<td>4.1%</td>
<td>3.9%</td>
<td>6.5%</td>
<td>2.1%</td>
</tr>
<tr>
<td>1973-1979</td>
<td>11.8%</td>
<td>12.1%</td>
<td>9.0%</td>
<td>13.8%</td>
<td>8.9%</td>
</tr>
<tr>
<td>1978-1979</td>
<td>13.2%</td>
<td>9.2%</td>
<td>9.2%</td>
<td>13.8%</td>
<td>12.3%</td>
</tr>
</tbody>
</table>

#### INDUSTRIALISED COUNTRIES

<table>
<thead>
<tr>
<th>Year</th>
<th>U.K.</th>
<th>U.S.A.</th>
<th>West Germany</th>
<th>Japan</th>
<th>France</th>
</tr>
</thead>
<tbody>
<tr>
<td>1966-1972</td>
<td>5.9%</td>
<td>4.3%</td>
<td>3.4%</td>
<td>5.5%</td>
<td>5.2%</td>
</tr>
<tr>
<td>1973-1979</td>
<td>15.6%</td>
<td>8.5%</td>
<td>4.6%</td>
<td>9.9%</td>
<td>10.7%</td>
</tr>
<tr>
<td>1978-1979</td>
<td>13.4%</td>
<td>11.3%</td>
<td>3.8%</td>
<td>3.6%</td>
<td>10.7%</td>
</tr>
</tbody>
</table>

Source: Industrial Development Corporation of South Africa 1982
Table 3.4 shows the rapid increase in the generation of electricity as well as in the production of pig iron and cement and the total traffic of the South African railway system while Table 3.5 compares the rate of growth of electricity generation between 1954 and 1977 of various countries of the world.

South Africa is a major generator of electricity and is at present one of the major buyers on the world market of generating equipment.

At present the Electricity Supply Commission has a total installed capacity of 21,250 MW in twenty-five operating power stations. It is estimated that by 1990 ESCOM will have to increase its total installed capacity to approximately 35,000 MW.

Figure 3.4 shows the power stations under construction at present to meet part of this future demand.

FIGURE 3.4 ESCOM'S POWER STATIONS UNDER CONSTRUCTION

![Power Stations Construction Diagram]

Source: Electricity Supply Commission
FIGURE 3.5 MAJOR CAPITAL PROJECTS

<table>
<thead>
<tr>
<th>Category</th>
<th>Rm</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>210.8</td>
</tr>
<tr>
<td>Other Mining</td>
<td>885.9</td>
</tr>
<tr>
<td>Coal Mining</td>
<td>3241.4</td>
</tr>
<tr>
<td>Gold and</td>
<td>4829.4</td>
</tr>
<tr>
<td>Uranium Mining</td>
<td></td>
</tr>
<tr>
<td>Food, Beverages and Tobacco</td>
<td>404.4</td>
</tr>
<tr>
<td>Textiles and Clothing</td>
<td>41.2</td>
</tr>
<tr>
<td>Wood</td>
<td>1461.6</td>
</tr>
<tr>
<td>Chemicals and Chemical Products</td>
<td>9284.6</td>
</tr>
<tr>
<td>Basic Metal Industries</td>
<td>4381.9</td>
</tr>
<tr>
<td>Metal Products</td>
<td>1446.2</td>
</tr>
<tr>
<td>Other Manufacturing</td>
<td>1891.0</td>
</tr>
<tr>
<td>Electricity</td>
<td>14532.5</td>
</tr>
<tr>
<td>Gas</td>
<td>161.2</td>
</tr>
<tr>
<td>Water</td>
<td>13387.7</td>
</tr>
<tr>
<td>Wholesaling</td>
<td>22.7</td>
</tr>
<tr>
<td>Retailing</td>
<td>101.9</td>
</tr>
<tr>
<td>Hotels</td>
<td>215.4</td>
</tr>
<tr>
<td>Road</td>
<td>4253.43</td>
</tr>
<tr>
<td>Water Transport</td>
<td>1015.7</td>
</tr>
<tr>
<td>Air Transport</td>
<td>99.7</td>
</tr>
<tr>
<td>Storage</td>
<td>1.0</td>
</tr>
<tr>
<td>Communications</td>
<td>20.6</td>
</tr>
<tr>
<td>Financial Institutions</td>
<td>354.4</td>
</tr>
<tr>
<td>Property Development</td>
<td>1482.2</td>
</tr>
<tr>
<td>Development</td>
<td>332.5</td>
</tr>
<tr>
<td>Other Services</td>
<td>286.80</td>
</tr>
<tr>
<td>Public Administration and Defence</td>
<td>486.25</td>
</tr>
<tr>
<td>Sanitary</td>
<td>138.81</td>
</tr>
<tr>
<td>Education</td>
<td>803.9</td>
</tr>
<tr>
<td>Research</td>
<td>22.6</td>
</tr>
<tr>
<td>Medical Services</td>
<td>390.3</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>54,130.06</td>
</tr>
</tbody>
</table>
Other major capital projects planned and under construction amount to a total of R54,130 m and are shown in Figure 3.5.

Finally, Table 3.6 shows South Africa as a large consumer of cars and Table 3.7 compares the South African rate of inflation with that of other industrialising and industrialised countries.

While, on the basis of the Beckerman and Bacon system of classification these figures show South Africa to be a rapidly industrialising country, certain anomalies emerge when the economy and political system are examined in greater detail.

There are other indicators of the level of South African economic development. In medicine South Africa leads in transplant surgery and its associated technology. It has developed its own uranium enrichment process which is cheaper than other methods used elsewhere. It is the only country to convert coal to oil on a continuous commercial basis although numerous other countries have attempted to do so. South Africa has one of the most sophisticated financial markets in the Southern hemisphere, and is the home country of such organisations as De Beers and the Anglo American Corporation, which, with the exception of its related companies, provides employment to 250,000 people and which had a tax profit from the companies which it controls of R4,300 m in 1982. Through the stimulus of the arms embargo South Africa has, with such countries as Brazil and Israel, become one of the world's new arms exporters.

While the preceding paragraphs demonstrate the high level of South African economic development in relation to other countries on the continent they do not comment on the associated dualistic socio-economic
structure and the effect that future growth and development will have upon it.

Schlemmer and Webster identify two points of view in the literature - the "conventional viewpoint" and the "Revisionist Thesis". (Schlemmer, L. and Webster, E., 1978: pp.11-13.)

The conventional viewpoint incorporates two main theses which are often presented as being interrelated. The first argues that economic growth has a range of consequences which are likely to fundamentally modify the socio-political structure of South Africa while the second maintains that racial prejudice is an irrational pre-modern characteristic of society which is likely to be weakened by the increasing influence of the logic of economic rationality attendant upon economic growth. The broad value perspective within which these views appear is usually extremely close to that of mainstream liberalism and, as regards their theoretical assumptions relating to structure, they are broadly compatible with the theories of modernisation in sociology.

In the conventional view of the social effects of industrialisation, in which certain logical imperatives are identified, it is argued that the ultimate effects of industrialisation are that "ascribed" statuses, such as those associated with ethnic identity, vanish as factors which structure social relations. The premium placed on rationality will relegate discrimination to the periphery of the social structure.

The South African economy is a market economy the tendency of which is the rational utilisation of resources. There is therefore, Horwitz argues, a conflict between economic rationality and the political factor. (Horwitz, R., 1967.) He argues that in this conflict it is the logic
of market rationality which is likely to prevail and that in South Africa this development will be brought about by three main factors. Firstly, in a competitive market capitalists have to utilise the available resources in the most rational way possible. The use of various techniques of rational analysis will result in a recognition of the fallacy of arguments about racial inferiority thus resulting in a more full utilisation of the Black labour force. Workers will compete with one another on the basis of industrial aptitude and ascent on the social ladder will depend largely on the necessary skills.

Secondly, under these circumstances White workers will come more frequently into equal status contact with Black workers of equal competence thus undermining the empirical basis for discrimination.

Finally, to the extent to which the political factor of apartheid delays this process it will at the same time by interfering with the logic of the market slow down economic growth and threaten the White standard of living. Faced with a choice between prejudice and prosperity, it is argued, the already secularised Whites will, it is hoped, opt for prosperity.

This process is envisaged by various writers as happening or likely to happen more or less rapidly and more or less peacefully. O'Dowd, for example, predicts broadly similar consequences of economic growth. (O'Dowd, M.C., in Schlemmer, L. and Webster, E., 1978: pp.28-50.) His theoretical perspective, however, differs from that of others in this broad category in that its fundamental economic determination is reminiscent of some Marxist thought as Schlemmer, Webster and Fisher point out. Using Rostow's theory of the stages of growth he attempts to date the probable stages of political change. (Rostow, W., 1960.)
His argument is more complicated than the model outlined in that he grants a role to Black actors and to revolutionary unrest. However, most of those who adopt this position stress the role of the Whites.

The second approach in the literature is that put forward by the revisionists. The term "revisionist" is one which has come to be used to indicate a school of thought at variance with older and more conventional views. The term itself as used below is not intended to have any political or ideological connotation.

The revisionist position sees the main problem in South Africa as being the economic exploitation of the Black population by the White settler group. Racialism may be irrational, but in South Africa it is seen as "rational" in so far as it functions as an ideology which legitimises the exploitation of Black labour. The South African economy is seen as a "labour repressive" economy in which the rapid accumulation of capital and the achievement of a high standard of living by the White working class is made possible by the political machinery of repression which assures the continued subservience of the Black labour force. The tendency in such a labour repressive society is towards the increasing concentration of power. The fruits of economic growth are concentrated in the hands of those who control the economy thus both increasing their relative domination of the economy and at the same time providing the means for strengthening the machinery of political and military repression. Thus, it is argued that if capitalism has any rationalising tendency, it is towards the rationalisation of domination rather than the removal of prejudice.

The revisionist thesis, like the conventional viewpoint, stresses the role of Whites, but whereas in the latter case they are seen as agents
of change, in the former they are seen as irremovable obstacles to change.

The evidence of what is occurring in South Africa today tends to support the conventional viewpoint. Economic growth in conjunction with the ideological limitations placed on the supply of labour have created severe stresses in the South African economy. The result has been a severe shortage of skilled labour, as well as of supervisory and managerial staff while, to a limited extent, skilled labour has been imported from Europe, particularly during the present recession, it has been recognised that this problem may only be overcome by developing the vast labour pool that already exists. This has happened and increasingly Asians, Coloureds and Blacks are moving into jobs previously reserved by custom or legislation for Whites. Foreign direct investment has assisted greatly in this process as MNCs are often less patient with limitations placed on their operations by a system of which they are not part and the logic of which they do not understand. At the same time multinational corporations operating in South Africa have also come under increasing pressure to improve their employment practices or to withdraw.

The General Electric Company, for example, is now training Black apprentices at its factory in Benoni. Foreign influence through potential political pressure on the corporation has also had other major effects such as the recognition by such organisations as the Chloride Group of an unregistered trade union despite conflicting advice from various government ministers and the South African Police. This is particularly significant when, as was suggested to the researcher by the Christian Association of Business Executives, such trade unions will form one of the main channels of Black political expression in
the future given the restrictions on such debate in other areas.

In the study that follows, a number of those interviewed commented on what they perceived to be a realisation by the South African Government that there has to be a trade-off between ideology and future economic growth and development. While this will be discussed within the context of the specific interviews it is interesting to note that as economic development has taken place so the Nationalist ideology has undergone significant change. The concept of Afrikaner ethnic mobilisation has come to be replaced by other approaches such as the idea of the survival of White South Africa against what P.W. Botha has termed the "total onslaught". It is within the framework of this survival concept that both the South African political and military leadership have argued the necessity for fundamental change. Both Prime Minister Botha and Minister of Defence General Malan have stated on several occasions that constitutional and other changes are necessary in order to give the population a stake in the future of the country. This has led to a major split in the Nationalist Party. However, before commenting on this it is necessary to examine the nature of South African political development.

3.4 SOUTH AFRICAN POLITICAL DEVELOPMENT

Adam and Giliomee, in their book "The Rise and Crisis of Afrikaner Power", attempt a simplified review and assessment of six admittedly artificially separated approaches in the literature on South African political development. (Adam, H. and Giliomee, H., 1979: pp.16-60.) This assessment and review delineates an area in which hundreds of writers have come to an almost equal number of contradictory conclusions. The dangers of such an approach to the relevant literature are
clear. However, it is necessary to attempt such a division in the interests of analytic convenience.

Essentially, six approaches may be discerned:

a. the focus on Calvinism;

b. the concept of a plural society;

c. the focus on class formation;

d. the colonial analogy;

e. the fascist analogy;

f. the focus on racism.

Rather than focus on any single interpretation to the exclusion of all others, the argument that follows will utilise relevant concepts from each interpretation. Adopting a single approach to the complex social and political structure of South Africa results in certain inherent weaknesses as a result of the rigidity imposed by the use of a single analytical framework. Thus, for example, to state that the key to understanding the Afrikaner is Calvinism is not enough. As is the case with all apostles there are as many Calvins as there have been revisions or restatements of the original philosophy. Relevant to an understanding of the Afrikaner in this context are, for example, the Synod of Dort in the early seventeenth century, the rise of Puritanism, and the neo-Calvinism of Kuyper, Dooyeweerd and others in the Netherlands of the present. (De Klerk, W.A., 1975: pp.204, 257-258; Kuyper, A., 1943.) While such an understanding provides an insight into the Afrikaner it fails as a direct explanation of his ethnic mobilisation or the origins of such elements of the overall political ideology as separate development. It is for these reasons that it is necessary to examine South African political development in terms of British
imperialism in the nineteenth and early twentieth centuries as well as the concept of a plural society. The ideas of fascism and class formation are of little relevance and often form the basis of the rigid and somewhat laboured Marxist analogies that have been applied to South Africa by such theorists as Slovo. (For example, Davidson, B., Slovo, J. and Wilkinson, A., 1976.)

While the ensuing paragraphs attempt to develop an understanding of what is occurring in South Africa today they should in no way be seen as part of the apologetics of a system that has institutionalised discrimination, enforced separation and even gone so far as to attempt to give away South African territory and citizens to a foreign country (Swaziland). While it is possible to determine the origins of such actions it is difficult to justify them.

To understand what has occurred in South Africa it is necessary to firstly examine the origins of Afrikaner identity.

Stavorinus, in 1798, observed that "the first Europeans in the colony, which comprises various nationalities, have in the course of time intermingled to such an extent that they have in the course of time become indistinguishable from each other. (Stavorinus, 1798: p.309.)

Even most of those who were born in Europe have, so to speak, exchanged their national character for the character of this country". Despite the integration of the various nationalities and the emergence of particular national characteristics the influence of Europe was still extremely strong. This influence was most strongly felt through both the rule of the Dutch East India Company and the Dutch Government with their approach to both civics and justice based to some considerable extent on the tenets of Calvinism. In addition, the distinction made
by the European inhabitants of the Cape between civilisation and the lack of it was based on whether or not a person was educated to the extent of being able to read and write as this was essential for an understanding of the Bible.

As the settlers, or Free Burghers, moved away from the boundaries of the settlement that had been defined by the Dutch East India Company becoming increasingly isolated so the strength of their literally interpreted Biblical beliefs increased. These beliefs were further reinforced by the arrival of the Hugenots at the Cape in 1688 following the revocation of the Edict of Nantes in 1685 by Louis XIV. As de Klerk has demonstrated, the religious beliefs of the English immigrants also played a major role in that although their beliefs were not the same as those of the Dutch settlers they did originate from essentially the same fundamental principles, despite the intervention in Church affairs by Henry VIII. (De Klerk, W.A., 1975: p.138.)

Despite this, the arrival of British rule in 1806 and the cession of the colony by Holland to Britain in 1814 following the second occupation of the Cape by British forces led to major repercussions. For the first time the Dutch inhabitants came to feel threatened not only by the Xhosa on the Eastern frontier but also by the British system of administration which, it was felt, went against the commandments of God and their own established institutions. (Adam, H. and Giliomee, H., 1979: pp.98-100.)

While historical fact demonstrates that this was a result of changes in the legal system, the abolition of slavery, changes in the master-servant relationship, missionary activity and the constant threat of invasion by Xhosa tribes, de Klerk has also attempted to demonstrate certain similarities in feelings and religious beliefs between the
settlers at the Cape and those in America prior to the Declaration of Independence in 1776. (De Klerk, W.A., 1975: pp.22-27.) In fact, certain similarities in philosophical principle may be discerned in the American Declaration of Independence and the Retief Manifesto published in 1837 prior to the Great Trek in which the Dutch Settlers moved northwards to escape British influence.

The idea of a movement away from British domination provided both a sense of unity as well as a further entrenchment of Calvinist fundamentalism. However, it failed to achieve its objectives. In 1843 Natal was annexed whereupon there was a move north into what is now the Orange Free State and the Transvaal. In 1848, however, Britain proclaimed its sovereignty over the area between the Orange and Vaal rivers although it recognised the independence of the Transvaal in 1852. In 1854 the independence of the Orange Free State was also recognised.

(Davenport, T., 1978: pp.18-38.)

At this stage it appeared to the Trekkers that their search for independence was over and that they were free to establish their own form of government. However, two discoveries that were to have lasting political and economic effects on the history and development of South Africa were made. These were the discovery of diamonds near Kimberley in 1869 and the discovery of gold in the Murchison Range (1870), at Eersteling (1871), Lydenburg (1873) and on the Witwatersrand (1886). The results of this were felt immediately.

There was an influx of the usual collection of adventurers and fortune seekers. More important, however, was the start of low level industrial and manufacturing development of support industries which gave the major impetus to South Africa's industrial development on which future
industrial growth could be based. It was in this environment that such visionaries as Rhodes and others were able to direct what was to occur in the future through the establishment of such organisations as De Beers and others which were to become the precursors of such mining-finance houses, as the Anglo American Corporation.

The immediate feeling in the Boer Republics was that this influx of foreigners would not only threaten their sovereignty but that such an influx would have a detrimental effect on the morals of the people and destroy everything that the Trekkers had fought for. These fears proved not to be unfounded. In 1870 the diamond fields were annexed by Britain and in 1877 the Transvaal was proclaimed as a British territory. The foundations were now laid for the inevitable results of a conflict between religious idealism, identity, the fear of foreign domination and the reality of the necessity of control of major mineral deposits by an imperial giant. The result eighty years later is a country divided against itself, isolated from the international community, on the edge of civil war, able to save itself but trapped by its history.

In 1880 the first Anglo-Boer war was fought. It resulted in the Transvaal gaining independence under British sovereignty. In 1889 an alliance was formed between the Transvaal and the Orange Free State and in 1899 the inevitable happened - war was declared and Boer Kommandos rode into Natal. In 1902 peace was declared with the signing of the Treaty of Vereeniging.

During this conflict British forces under the command of Lord Kitchener adopted a scorched earth policy and placed those still remaining on the farms into internment camps in an attempt to break down support for the Boer Kommandos and hamper their ability to obtain supplies from farms or live off the land.
While Kitchener's tactics may have been successful from a military point of view, they were a long-term political disaster. The result of a scorched earth policy, the displacement of women and children and a major war was a massive influx of people whose very existence had been destroyed into the cities of which they had no experience and which were almost entirely populated by foreigners. Although there had been a peace treaty the nature of the conflict had merely changed.

In victory the British were generous and political power in South Africa was vested in the old generals - Botha, Smuts and Herzog. Although the Afrikaner retained political power through cooperation with Britain and allowing what was to be the Union to become part of the greater Empire, economic power was still firmly in the hands of the English in the English cities. The effects of Kitchener's policy began to be felt on the political, economic and social fronts. This was aggravated by Lord Milner's suppression of Dutch in education and his wish to ensure the dominance of the British element of society politically and culturally. (Davenport, T., 1978: p.151.)

The influx of unskilled White labour created the potentially explosive "poor white" problem. The Afrikaner felt alienated in the Anglo-Saxon socially and economically dominated cities where employment was limited and where they had to compete at the lower end of the employment spectrum with Black workers faced by essentially the same problem. This competition led to the miners strikes and riots of 1913 and 1922 and the use of the newly created South African Defence Force by General Smuts against Afrikaner miners who felt that they were being subjected to unfair competition by Black workers.
The strongly pro-Empire policies of Botha and Smuts which had resulted in South Africa's participation in both World Wars and the growing international prestige of Smuts led to the feeling among a number of Afrikaners that Smuts had betrayed his people, used his army on them, and even forgotten them.

A further factor in this process was that despite the recognition of both English and Afrikaans as the two official languages in 1925, English remained the language of commerce and law. The literary explosion in Afrikaans and the predominant use of English further reinforced the feeling of isolation and domination.

It was now that the first stirrings of what was to occur in 1948 were beginning to be felt. The embougeoisement of the Afrikaner was increasing although employment opportunities were limited by the very nature of the economy, the depression and various social factors. The Afrikaner became increasingly involved in the search for his identity or "eie". (De Klerk, W.A., 1975.) It was realised that this could only be achieved by political control backed by economic power. Political liberation without economic freedom is meaningless as has been realised by the Government of Zimbabwe which is at present encouraging Black business and entrepreneurs. The fact that political power was meaningless without economic power was made clear to the emerging educated elite by Vader Kestell at his Blaaukrantz address in 1939. (De Klerk, W.A., 1975: pp.280-284.)

The new ideology of Afrikaner nationalism brought these factors together. This was developed through debate among the new intellectuals at such universities as Stellenbosch and Bloemfontein as well as within the cells of the newly formed Broederbond. The immediate appeal was
obvious. The objective was to provide the Afrikaner with a home in his own country, economic and political power and the removal of the "Black Menace" (Swart Gevaar). (Adam, H. and Giliomee, H., 1979: pp.114-115.)

In 1948 the Nationalist Party came to power and began to implement the policies which by leading not only to the rapid economic development of South Africa have also led to an institutionalised social and economic structure based vertical stratification according to colour. The dogmatic nature of the ideology of separate development has led South Africa into international isolation and the increasing danger of internal instability and civil war through the dissatisfaction of a Black population which, as has been admitted by Prime Minister Botha is faced by the same problems today as were faced by the Afrikaner between 1902 and 1948.

The Black population of South Africa has proved to be an ironic challenge to Afrikaner rule.

Promises of change within South Africa have been made by both Prime Ministers Vorster and Botha. The "give South Africa six months" statement by B.J. Vorster resulted in a number of diplomatic exchanges with Black Africa but there was little effective change.

When P.W. Botha assumed office a number of promises of liberalisation were made at such meetings as that which took place with business leaders at the Carlton Hotel in Johannesburg and which was followed by a similar conference at the Mount Nelson Hotel in Cape Town. To a certain extent change has taken place. The concept of power sharing with other population groups has been implicitly recognised through the major constitutional initiatives of recent years resulting in
Coloured and Indian membership of the newly formed Presidents Council. Such recognition would have been inconceivable during the premierships of Verwoerd and Vorster. The degree to which the participants actually represent Coloured and Indian opinion is open to question. Black participation has not been sought by the Government although for the first time the issue has been raised by the political and military leadership which has argued strongly through P.W. Botha and Minister of Defence General Magnus Malan that unless the Black population is given a stake in South Africa there is no reason for it to support the country against internal or external aggression.

This debate on the future direction of the Nationalist ideological commitment has resulted in a major split in the party and the consequent resignation of its Transvaal leader, Andries Treurnicht, to form a more right wing party. This has had the advantage of leaving P.W. Botha with a more united party with which to bring about the political changes perceived to be necessary to ensure the survival of the state and Afrikanerdom against what is now being termed the "total onslaught".

Political thought and strategic perceptions are undergoing rapid change in South Africa at present. The policies developed on the basis of the ideology of the ethnic mobilisation of the Afrikaner and the search for the self (eie) have proved to be self-defeating. As the embourgeoisement of the Afrikaner has taken place so their values and perceptions have changed. The leaders of Afrikaner business have, for example, become far more cosmopolitan in their outlook and have often challenged government policy in non-economic spheres. There have been rumours that the detente missions into Africa were, to a considerable extent, a response to pressure exerted on the government by business. The fundamentalist approach has, therefore, come under increasing pressure for change.
What emerges, therefore, is a crisis of approach. The response to this has been to substitute the concept of survival into Nationalist ideology in the late seventies. All that is then undertaken on the political front is therefore labelled as pragmatism in the interests of survival in the face of the coming total onslaught against South Africa.

The promised changes of P.W. Botha have been met with increasing cynicism from a Black population disillusioned by the history of Nationalist rule and which feels that the policy of separate development will only be changed under pressure. Demands are now being made for effective power-sharing and the new constitution has been rejected by representatives of the various population groups which appear to be aligning themselves with Black aspirations.

The challenge facing the Black population in the 1980s is the overcoming of the strong tribal divisions that still exist and the need for effective leadership. At present the leadership vacuum is critical to the fulfilment of Black aspirations. It is often felt that such leaders of the sixties as Mandela have, through imprisonment, lost touch with the youth led response of the seventies. At the same time Inkatha is both a tribally based organisation and led by Chief Gatsha Buthelezi who, despite his vehement opposition to separate development, has lost credibility among the youth through using KwaZulu as a political base from which to direct his criticism without risk of being silenced.

Given the nature of the ideological crisis facing the White leadership, the Black population is in a unique situation to make its demands heard and force them to be acted upon. To a certain extent this is being achieved by the unregistered Black Trade unions which, as has occurred elsewhere, will play an increasingly important role where there are
strong political constraints and a relatively liberal approach to industrial representation.

Given the situation existing in Southern Africa today, policy and planning may be interpreted as being concerned with political risk, fundamental changes in attitudes and values of all race groups and the existence of pragmatic economic relationships with the rest of Africa.

The role of the multinational corporation may be seen in terms of the contribution to economic growth and thereby to the socio-political development of South and Southern Africa resulting in the increased participation of the Black population in the economic process at all levels, the politicisation of certain elements of this economic process, the further political development of the White population and the recognition of the necessity of a trade-off between economic growth and political ideology.

As has been stated in preceding paragraphs, what has emerged in the seventies in South Africa has been a policy of survival. But its very nature this can only be a short-term commitment. However, an interesting result of this has been the suggestion of a constellation of Southern African States sharing similar economic and strategic interests. The concept of such a constellation was discussed at the Southern Africa Economic Convention where it gained some considerable support from delegates. (Tusenius, R., 1979.) Countermoves were, however, discussed at Arusha in 1979, Lusaka in 1980 and Maputo in 1981 where it was felt that this was another attempt at South African hegemony and that it should be challenged as such. (Nsekela, 1981.)

The main function, however, of what became the Southern Africa Development Coordination Conference was the pursuance by the nine states of
Angola, Botswana, Lesotho, Malawi, Tanzania, Zambia and Zimbabwe of four developmental objectives through coordinated action. These objectives are:

a. the reduction of economic dependence, particularly, but not only, on the Republic of South Africa;

b. the forging of links to create a genuine and equitable regional integration;

c. the mobilisation of resources to promote the implementation of national, interstate and regional policies;

d. concerted action to secure international cooperation within the framework of the strategy for economic liberation. (Nsekela, A.J., 1981.)

While South Africa is surrounded by states which reject its internal political policies and which are, in many instances, covertly prepared to support armed incursions into its territory there nevertheless exist strong pragmatic economic ties founded upon their economic dependence. Such dependence is encouraged by the South African government which sees this as an important element of its economic and military strategy. This has important implications for the locational strategies and exposure to political risk of international firms wishing to gain access to the region as a whole while maintaining a strong presence in the area of highest industrial and market concentration. From this it may be seen that it is difficult to understand the apparently conflicting rhetoric and real economic relations without an appreciation of the nature of this dependency relationship. It is, however, beyond the
scope of this dissertation to consider this in great detail and for this reason three of South Africa's closest neighbours are discussed in Appendix 3.1 while the wider regional economic relationships and their implications for the multinational corporation are examined in Chapter Six.

3.5 CONCLUSIONS

The role of the multinational corporation may be seen in terms of its contribution to economic growth and thereby to the socio-political development of South Africa. In its strategy the multinational corporation must take into account the present parameters of development, however, at the same time it must recognise that it is faced by a dynamic developmental process in which the nature of the existing ideological framework has as significant an influence as any purely economic variable.

In the ensuing chapters the nature of the reciprocal effects of economic development and the strategic approach of multinational corporations are explored within the theoretical constraints outlined in Chapter Two on the relevance of contemporary orthodox economic theory.
The nature of the dependency relationship within Southern Africa is well illustrated by Botswana, Lesotho and Swaziland and is analysed within the context of the Latin American framework.

The dependence approach evolved from a dialogue centred in Santiago and which involved Latin American Marxist and non-Marxist economists, sociologists and political scientists. It influenced neo-Marxist scholars, mainly in France, but soon extended to non-Marxist scholars in North America. The Latin American approach focuses on the manner in which dependence mechanisms are expressed internally. In contrast, the European and North American approaches concentrate on the external aspect of the dependence relation. (Ström, G.W., 1978: pp.15-17.)

The Latin American approach adopted in the ensuing paragraphs argues that dependence may be defined as a subordinate relation to the outside world, which originated historically through foreign intervention, although today it is manifested both through the internal socio-economic structure established in the peripheral societies and through unequal foreign relations. (Ström, G.W., 1978: p.14.)

Ström bases her analysis of the development of Lesotho upon this approach and sets it within the framework of six questions:

(Ström, G.W., 1978: p.12.)

a. Is production becoming less diversified and more disintegrated?

b. Are inequalities in wealth, welfare and income increasing?

c. Is the power base of the government decreasing?
d. Are state institutions growing in size and state activities in scope?

e. Is foreign control of human and material resources increasing?

f. Is economic growth increasingly emphasised as a goal of government policies at the same time as the regime repeatedly fails to reach this goal?

The tendencies indicated in these questions are sometimes treated as automatic indicators of dependence, although not always grouped together in the same study. It should be noted, however, that the tendencies indicated have their origins in different types of dependency and, in fact, looking at these signs as caused by dependence does not exclude the fact that they may have other causes in other societal situations.

Botswana and Lesotho obtained their independence from Britain in 1966 while Swaziland gained hers in 1968. From the late nineteenth century until that time Great Britain had administered all three as High Commissioner Territories, the responsibility for which, somewhat uniquely, was vested in the Commonwealth Relations Office rather than the Colonial Office. This was the result of the original justification for British intervention whereby British interests coincided with the main chiefs of the Botswana at that time - Khama of the Ngwato; Setshele of the Kwen; Bathoen I of the Ngwaketse - as well as King Moshoeshoe I of the Basotho who wished to protect themselves from settler expansion from the Transvaal and Orange Free State Republics. Swaziland was disputed until 1894 when Britain recognised the right of the Transvaal Republic to protect it. However, after the defeat of the Transvaal, Swaziland became a British protectorate.
However, the British commitment to these territories was perceived to be tentative and the South African Act of Union of 1909 carried an addendum explicitly noting that the three territories were expected to become part of the Union. The British government appeared to share the White South African view that the logic of geography, economics and ethnic ties among the people of the territories and the Union pointed towards incorporation as the sensible path for the future.

Fear of incorporation, however, led the people of the territories to resist incorporation and the chiefs continued to remind the British that they had an obligation to protect the autonomy and basic human rights that would be denied to their people on incorporation into the Union.

After 1948, after the Nationalist Party came to power in South Africa, incorporation took on a different dimension. From the Nationalist point of view it became more attractive as the Bantustan concept developed. This was made explicit in 1956 in the Tomlinson Report in which maps of the three territories were included in its view of the overall separate development strategy. (Tomlinson, 1955.)

By then, however, external events had strengthened resistance to incorporation. The rise and success of African nationalism to the North, the international condemnation of apartheid, and other pressures combined to make the granting of independence a feasible and politically expedient alternative.

In 1962, Prime Minister Verwoerd indicated that he was reconciled to the High Commission Territories becoming separate self-governing states. A year later, however, he asked to be able to appeal directly to the people of these states and explain how they would benefit from the
Tomlinson formula. The tactic was both transparent and too late coming at a time when all three were being prepared for constitutional change and independence. (Carter, G.M. and O'Meara, P., 1979: pp.223-225; Colclough, C. and McCarthy, S., 1980: pp.48-49.)

It was within this context that the present governments of Botswana, Lesotho and Swaziland came to power. The power base of each government is radically different and the following paragraphs discuss the power bases of the governments of the three countries since independence.

Botswana may be regarded as a regional symbol of liberal democracy with the openness of its political process standing in sharp contrast to that of Lesotho and Swaziland. It has been ruled since independence by the Botswana Democratic Party under the leadership of Sir Seretse Khama until his death and now under the leadership of Dr. Quett Masire. Despite challenges from the Botswana Peoples Party, the Botswana National Front, and the Botswana Independence Party, the outcome of any of the three elections since independence was never in any doubt. (Colclough, C. and McCarthy, S., 1980: pp.34-47, 51-53.)

In terms of popular participation, the degree of mobilisation is low and popular response to public policy is partial if not passive. The preoccupation with ideology is extremely limited and the Botswana Democratic Party speaks of its "national philosophy" in terms of four concepts - democracy, development, self-reliance and unity. (Colclough, C. and McCarthy, S., 1980: Op.Cit.)

In contrast to Botswana's independent democratic image, the post-independence history of Lesotho has been characterised by intense factionalism, outbursts of fratricidal violence, and endemic political instability leading to the conclusion that the concept of marginality
is most appropriate for interpreting the Basotho experience. The Basotho experience of marginality vis-a-vis South Africa has resulted in the politicisation of virtually every conceivable line of demarcation within society leading to internecine conflicts involving dynastic rivalries which, in turn, have resulted in recrimination and obstructionism. (Weisfelder, R., 1980: p.249.)

In an election defeat, largely attributed to Chief Leabua Jonathon's policy of cooperation with South Africa, the Basotho National Party lost its slender two seat majority to the pan-Africanist Basotho Congress Party. Jonathon siezed power and subsequently used the resultant institutional flexibility of a suspended constitution to co-opt segments of the opposition without permanently rebuffing the remainder. The royalist Marematlou Freedom Party and the United Democratic Party were persuaded to support him while the Basotho Congress Party phalanx was cracked by usurping the power of its leader and using the deputy leader of the party to lead a contingent of the party into the new National Assembly.

In Swaziland, British rule emphasised loyalty to a country, a flag, and a set of laws. This concept introduced a dualism between the traditional and the modern in the social, cultural, political, religious, and the economic sectors of the social order. (Vilakazi, A., 1979: pp.269-271.) Despite this, however, the new elite at independence still proclaimed their loyalty to the traditional king. The King, however, accepted the challenge for an elected legislature and formed his own Mbokodvo Party which won the 1964 election and promptly changed the constitution by disenfranchising white South Africans resident in the country. In 1973 the King suspended the constitution and took over the reigns of government. The reason for this may be found in the
concept of "umbango" or the regarding of opposition as being an illegitimate contest for power. Secondly, it was an attempt to contain change and especially to deal with the harsh intrusions of industrialisation, urbanisation, modernisation, and western education into the traditional Swazi socio-political landscape. (Vilakazi, A., 1979: pp.271-273.) Before commenting on the degree to which the majority tends to be left out of political participation in each country and the degree to which this reflects the conflict between centre capital interests and potential political majorities in the countries concerned it is necessary to discuss the remaining questions outlined in Ström's framework.

Industrial and mining production in all three countries is heavily dependent on South African as well as other foreign interests. Botswana, for instance is completely dependent on De Beers for the exploitation of its diamond deposits at Orapa and Letlhakane while the Selebi-Phikwe copper mining project is jointly controlled by the Anglo-American Corporation and Amax. Anglo-American and De Beers are interrelated companies, Anglo-American together with other mining houses holding approximately one-third of De Beers. De Beers is also involved in diamond mining in Lesotho although it has been suggested that this is the result of political pressure by Chief Jonathon rather than of commercial judgement by De Beers given that Lohnro and RTZ both regarded the deposits as too scattered to be commercial. (Ström, G.W., 1978: pp.132-140.)

Industrial production, as is demonstrated by Selwyn in his study of industries in the South African periphery, is largely dependent on the South African industrial and market centres for capital, certain raw materials, skilled labour, and markets. (Selwyn, P., 1975.) In addi-
tion, despite the provisions of the 1969 Customs Union agreement, the South African Railway and Harbours Administration exerts effective control over road, rail, and air transport to and from these countries, although Botswana's rail system is run and owned by Zimbabwe Rail.

South Africa and the EEC form the market for Botswana's meat production while mohair from Lesotho is exported through the South African Wool Board. The Commonwealth Development Corporation and Courtaulds have been active in the Swazi forest products industry. (Vilakazi, A., 1979: p.280.)

Although all three countries boast major tourist attractions, Lesotho and Swaziland have been more active in utilising these than Botswana. Lesotho, for instance, has agreements with both the Hilton Corporation and Holiday Inn.

Thus, as may be seen, all three countries are strongly dependent on external interests in primary, secondary and tertiary production.

The above partially demonstrates the extent to which the material resources of each country are subject to South African control. However, it is useful to briefly outline two further aspects of this - the Southern African Customs Union and the recruitment of labour.

The Customs Union was established in 1910 and provided for the free interchange of goods between South Africa and the three territories as well as sharing of the area's total import and excise revenues occurring from the common external tariff. Although the percentage share of the three territories varied slightly under the original allocation, in each of the three cases it was less than one percent leaving approximately 98 percent for South Africa. In 1969 this agreement was
renegotiated at the collective insistence of Botswana, Lesotho and Swaziland. The objective was to improve the revenue position of the three smaller states relative to South Africa. The new agreement is complex. In brief, however, instead of the former straight percentage basis, customs revenues are now divided according to a formula based on the value of actual imports into each country in relation to those of the common customs area as a whole. Although this new formula still allows South Africa to benefit disproportionately due to its large industrial economy, income from the duties since 1970 has represented a significant portion of the public revenues of the three newly independent countries. (See Table 3A.1.) (Carter, G. and O'Meara, P., 1979: pp.225-226; Morgan, E.P., 1979: pp.245-246; Weisfelder, R., 1979: pp.256-257.) In fact, it has enabled the economically stronger members - Botswana and Swaziland - to eliminate their dependence on British subsidies.

### Table 3A.1

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<td>Botswana</td>
<td>25</td>
<td>21</td>
<td>50.1</td>
<td>48.5</td>
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<td>Lesotho</td>
<td>50</td>
<td>35</td>
<td>68.7</td>
<td>63.3</td>
<td>48.0 (1976-77)</td>
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<td>Swaziland</td>
<td>11</td>
<td>32</td>
<td>46.5</td>
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The recruitment of labour from the three countries by the South African Chamber of Mines has several implications for economic development. The researcher, however, has not found any conclusive quantitative study of the internal economic effects of this on the countries concerned. The nature of dependency in this instance will, therefore, be considered briefly.
Essentially, the migrant labour system is accepted by Botswana, Lesotho and Swaziland because of the contribution to their economies wages earned in South Africa are supposed to make. A number of researchers point out, however, that the level of earnings repatriation appears to be extremely low with wages earned tending to be spent on consumables in South Africa or on goods of South African origin. It is therefore questioned whether or not the level of repatriation (and type of skill acquired by the individual) justifies the withdrawal of men from the agricultural sector thus reducing productivity by placing production in the hands of women, children and the elderly. This applies particularly to the subsistence sector. Given the nature of the dependency relationship outlined thus far, it is difficult to assess the extent to which the growth of state institutions are an effect of the centre economies' need for an administrative and political presence in dependent countries or the natural result of social, political and economic growth and development or a combination of both. Thus, while Ström demonstrates the role of South African advisors in the building of Lesotho's public administration, this was, it may be argued, a result of Lesotho's foreign policy which was changed radically after the demonstration of dissatisfaction in the 1970 election. On the other hand, British and South African advisors have been heavily involved in Botswana although the foreign policy of this country is clearly independent - as is demonstrated by her role as one of the Front Line states, a major political role in Southern Africa and one denied to Lesotho and Swaziland. The nature of the rapid development of Botswana leads to the conclusion that the expansion of state institutions is not solely due to centre interests.
It is, however, clear that the growth of state institutions as well as industrial investment and mineral exploitation within the highly dualistic economies of the three countries has inevitably resulted in extreme inequalities in wealth, welfare and income.

In conclusion, it is necessary to examine the extent to which economic growth is emphasised as a goal of government policies and assess the degree to which this goal has been achieved.

Lesotho's First Five Year Plan - 1970/71 to 1974/75 - was designed to lay the foundation for social and economic development. Some progress was made during this period in that dependence on external grants for balancing the budget was ended in 1973/74. In addition total employment outside of the agricultural sector increased by 5,000 to 6,000 and three agricultural schemes were put into operation while road, tele-communications and a number of other services were improved. The growth target for the First Plan Period was a minimum annual GDP increase of 5 percent. However, the most recent GDP estimate available at the time of writing is that for 1971/72 thus making it impossible to assess the rate of growth directly. However, available data indicate an expansion of the economy. For example, merchandise imports rose from R23.9m in 1969 to R79m in 1974. Capital expenditure incurred was R20.8m, 80 percent of the planned total. The target for agriculture was achieved but, there were major shortfalls in roads and education. (Barclays Bank, 1978.)

The Second Five Year Plan directs attention to obtaining greater manufacturing and agricultural production, increased employment, and a higher level of income. It aims at a GDP growth rate of 3 percent. A significant increase in employment in the industrial, handicrafts,
mining and tourism sectors is sought. Other goals include the development of water and mineral resources, improvements in communications, etc. The Donor Conference Papers published in September 1977 by the Central Planning and Development Office of Lesotho suggest that "the success of Lesotho in achieving the objectives set out in the Second Five Year Plan depends largely on the capacity of the Government to acquire sufficient financial resources to sustain its input into the development programme and to sustain an effective level of administrative and technical support for that programme through the recurrent budget". However, during the first two years of the planning period Lesotho experienced an overall budget deficit largely as a result of below estimate revenues from the Customs Union Agreement. Liquidity difficulties were also experienced in 1977. Attempts were made to overcome these problems by improving the ratio of locally raised recurrent revenues to total recurrent revenues and reducing delays experienced in receiving reimbursements from donors on that portion of the capital programme which is accountable to the Treasury. As regards development in Botswana, the 1978 Annual Report of the Bank of Botswana stated that Botswana's GDP grew rapidly between 1968/69 and 1973/74. However, GDP declined in real terms in the period 1974/75. This decline was the result of a fall in construction activity as the mine and new town of Selebi-Phikwe reached completion and the failure of mining output to increase as planned. 1974/75 was also a bad year for agriculture. (Barclays Bank International.)

In 1975/76, growth of GNP was resumed as output from the mine at Selebi-Phikwe increased and as output in other sectors also increased. The national income accounts for 1976/77 show that GDP at current prices grew by 9 percent - less than the rate of inflation. The only
sector to show significant rates of growth were mining, quarrying, general government, and, to a lesser extent, the various services included under the heading of Finance. Preliminary estimates for GDP in 1977/78 indicate that real growth in GDP was positive but small, probably in the order of 5 percent. (Barclays Bank International.)

The basic strategy behind the Botswana Government's strategy for development is the achievement of "Kagisanyo" or social harmony. This finds expression in the four national objectives upon which the national development plans for 1973-78, 1976-81 and 1979-85 are based. These are:

a. rapid economic growth;
b. social justice;
c. economic independence;
d. sustained development.

Budgetary proposals for any one year are closely related to the national development plan and its objectives. The fundamental themes of the Fifth National Development Plan are rural development and the increase of productive employment opportunities. The plan is believed to incorporate three major ventures:

a. the construction of an international airport at Gaborone;
b. the construction of a central power station at Palapye to reduce Botswana's total dependence on the South African grid;
c. the takeover of the rail system from Zimbabwe.

Botswana asserts that the basic objective of its development policy is the increase of the living standards of its population as a whole and the rural community in particular. (Colclough, C. and McCarthy, S., 1980.)
Three overall objectives, similar to those enunciated by Botswana, have been set for Swaziland's immediate future development. These are:

(Fair, T.J.D., Murdoch, G. and Jones, H.M., 1969: pp.3-9.)

a. economic growth;
b. self-reliance;
c. social justice and stability.

A target of 7 percent has been set for growth of GDP. It has been calculated that between 1973/74 and 1976/77 GDP at factor cost, in 1977/78 prices, grew from E222.5m to E272.1m - rate of 7 percent per annum. (Barclays Bank International.)

It is hoped that the Rural Development Areas Programme will increase agricultural production by 6½ percent, while the production target for industry involves increasing manufacturing and processing output by 7 percent. In addition, the programme states that the Government will promote the maximum use of existing resources and that processing of agricultural and mineral raw materials is to be encouraged, new coal deposits are to be exploited and water resources are to be developed. It is estimated that the implementation of this programme will result in a GDP of E283m in 1982/83 at 1977/78 prices. (Barclays Bank International.)

The strategy for the achievement of self-reliance allows for the securing of more control over productive activities for the Swazi people, the strengthening of the Government's administrative capacity, the development of local goods and services, and the diversification of external economic relations. This outline of the development of Botswana, Lesotho and Swaziland within the framework of the Latin American
approach to dependency as applied by Ström to Lesotho demonstrates the dependency of the three countries on the more central economies, in particular those of the United Kingdom and South Africa. This dependency on South Africa has led, since the Tomlinson report, to repeated calls by South Africa's leaders for more formalised cooperation. In particular, Prime Minister Botha has, as stated in preceding paragraphs, made repeated calls for the establishment of a Constellation of Southern African States. However, because of the fears of South Africa's neighbours this has evolved into an empty political gesture involving the South African Bantustans.

There is no question of the major advantages to be gained from total economic cooperation. Reference to Sir Seretse's comment on Southern Africa's developmental potential given the resources available to it is evidence of this. It is unfortunate that the social and political history of Africa continues to exercise so powerful an influence as to deny its people even the first chance of participating in turning the continent into the food, mineral and energy house of the future. It will require considerably more than Sir Seretse's act of political will for Southern Africa to take its true place in the economic development of the world.
CHAPTER FOUR

THE MULTINATIONAL CORPORATION AND ITS ROLE IN SOUTH AFRICA

4.1 INTRODUCTION

"The analysis of multinational business enterprise has been clouded by controversy, variety of interpretation and numerous, frequently emotive, value judgements". (Hood, N. and Young, S., 1979: p.1.) Hood and Young point out that there are few economic institutions that have been the focus of more contention than the multinational corporation. "Alternatively welcomed and spurned, praised and denigrated, controlled and deemed uncontrollable, such enterprises have been at the centre of wide-ranging debates both within their domestic base and in recipient nations". (Hood, N. and Young, S., Op.Cit.)

Even casual exploration of the literature demonstrates the strength of positive and negative feeling towards the multinational corporation. The U.S. Tariff Commission has stated, for example, that "it is a fact beyond dispute that the spread of multinational business ranks with the development of the steam engine, electric power and the automobile as one of the major events of modern economic history". (United States Tariff Commission, 1973, cited in Hood, N. and Young, S., 1979.) On the other hand their activities have on several occasions been the subject of strong criticism. For example, following the disclosures arising from the board room row Edward Heath, in the House of Commons, accused Lonrho of representing "the unpleasant and unacceptable face of capitalism". (Cronje, S., Ling, M. and Cronje, G., 1976: p.8.)

The multinationals comprising the international heavy electrical industry have been accused of forming a cartel, the International Electrical
Agency based in Lausanne, which has served to hinder the economic development of the LDCs by raising contract prices by up to 25 percent on certain items of equipment and, in the case of Brasil, placing the control of the indigenous industry under the control of foreign firms by questionable means. (Mirow, K.R. and Maurer, H., 1982: pp.3-9, 48-59, 276-282.) The conflicts which emerge between the benefits and threats posed by the multinational corporation are well documented in case form in Gladwin and Walter. (Gladwin, T.N. and Walter, I., 1980.)

Thus, while many recognise the major contributions to be made by the multinational corporation in technology transfer, international economies of scale, and so on, others stress the more sinister dimensions of such organisations as a form of neo-imperialism, economic domination, or unanswerable source of power.

The debate on the multinational corporation is not static, for what was once regarded as a competitive environment where foreign investors acted as neutral agents of capital and technological transfer is now seen as a highly oligopolistic world of transnational corporations possessing great commercial and economic power and posing a challenge to national policy and economic independence.

As will be discussed in ensuing paragraphs, the massive increase in economic activity in the present century has led, amongst other things, to the rise of the multinational corporation, particularly since the early 1960s. Today, Barnet and Müller point out, the multinational is transforming the world economy through its increasing control of what they term "three fundamental resources of economic life: (Barnet, R.J. and Müller, R.E., 1975: pp.26-33.)
It is this concept of integrated strategic planning on a global scale that leads to the definition of the multinational corporation adopted by the researcher. This definition is that submitted by Channon and Jalland, namely, "a multinational corporation is a company which seeks to operate strategically on a global scale". (Channon, D.F. and Jalland, M., 1979: pp.2-3.) D.H. Robertson defines multinational corporations as "islands of conscious power in an ocean of unconscious cooperation". (Robertson, D.H., cited in Coase, R.H., 1937.)

A precise and generally acceptable definition of what constitutes a multinational corporation or business enterprise is not available. The most widely used definition, however, is an arbitrary one chosen as the basis of the Harvard Research Programme directed by Raymond Vernon. Vernon adopts the thesis that a firm could be called multinational if it possesses at least six overseas manufacturing subsidiaries. However, Channon and Jalland argue that by choosing such an arbitrary number of overseas manufacturing plants it is possible to study a group of concerns for whom the increased complexity of managing a firm in many different environments is potentially common such a definition says little of how such firms actually manage their operations. (Channon, D.F. and Jalland, M., 1979.) It is possible for firms which numerically qualify as multinational to have little or no concept of themselves operating a carefully coordinated and integrated international strategy. In addition, such a definition is confined to the manufacturing industry and neglects the importance of multinational service corporations.
Channon and Jalland's definition takes into consideration such organisations as, for example, the General Electric Company which although denying its multinationality nevertheless operates strategically on a global scale through its centralised control over the budgeting processes of its subsidiaries as well as centralising all technical innovations made by its foreign companies.

Thus, while it is recognised that this definition is perhaps academically less rigorous it is of more immediate practical relevance than those tended by Vernon and others.

It is within the context of such integrated international strategic planning that this chapter examines the role of the multinational corporation in South African economic development, as defined in Chapter Two with its consequent effects on social, political and institutional change as discussed in the preceding chapter. To achieve this a three-fold approach is adopted. Firstly, the rise of the multinational corporation, the modification of management attitudes and expectations associated with this, the essential characteristics of the multinational and its economic impact are discussed. The second element examines the role of the multinational corporation in the economic development of South Africa and rejects the neo-classical analysis of recent years. In particular it rejects the comparative static approach as being of little use when analysing a dynamic force such as foreign direct investment. Where such approaches as, for example, Mac Dougall's welfare analysis have been extended to overcome such problems, the developments have taken place at a high level of abstraction and the models have tended to be oversimplified representations of reality having little or no relevance to the contemporary problems of such industrialising
countries as South Africa. Two alternative approaches to the role of the multinational corporation in South Africa are then proposed.

Finally, this is examined from the point of view of the multinational corporation in terms of a conflict management approach which allows a more explicit exposition of South Africa's developmental requirements. This in conjunction with Chapter Six, which attempts a taxonomy of the strategies adopted by particular organisations operating in South Africa, allows an assessment of the developmental contribution of specific multinational corporations in terms of the strategy adopted when operating or investing directly in South Africa.

4.2 THE RISE OF THE MULTINATIONAL CORPORATION

Despite a number of deficiencies in theory and the difficulties of reconciling such theory with managerial practice, it is possible to make certain generalisations about the routes adopted by firms in their pursuit of a multinational strategy. However, as will be demonstrated in the analysis of the empirical element of this dissertation, there are several such routes to multinationality. Nevertheless, certain routes are more common than others despite the fact that an examination of the strategies of many multinational corporations reveals the need for variation in planning systems, in information and control systems and in the roles expected of and decision making powers granted to various levels in the organisations.

In discussing the rise of the multinational corporation Tugendhat starts from a similar premise as that of Channon and Jalland in observing that the most striking characteristic of the modern multinational is its central direction. "Despite", he states, "frequent assertions to the
contrary the subsidiaries are not run as separate enterprises each of
which has to stand on its own feet. They must all work within a frame-
work established by an overall group plan at headquarters ....".
(Tugendhat, C., 1971: p.31.)

Such central direction has only become possible in the last three
decades as it depends on effective communications and information pro-
cessing. It is within this context that it is useful to examine the
emergence of the multinational corporation in its full sense in the
United States, the United Kingdom and Western Europe.

In the period since the 1950s the rate of new subsidiary formation by
U.S. firms has grown rapidly. Although the number of new operations
based in the developing countries and Latin America in particular grew
rapidly, the location of overseas assets and the volume of trade con-
ducted by U.S. firms abroad remained heavily concentrated in the devel-
oped economies. Channon and Jalland demonstrate the dramatic expansion
in the volume of direct investment in the post war period by showing
how it has risen from $11,788m in book value of total investments in
1950 to $78,090m in 1970. (Channon, D.F. and Jalland, M., 1979: pp.7-8.)

This period was especially favourable to such growth by U.S. firms
operating abroad. Such firms were faced by relatively slow growth in
their home economy and by several institutional constraints on growth
by acquisition. However, they perceived themselves as having signifi-
cant advantages over their overseas competitors. Firstly, they saw
themselves as having the advantage of scale and technology. Secondly,
they saw themselves as having superior marketing skills developed in a
highly competitive market place unlike the Europeans for whom cartels
were more common and who did not appear to have the skills required to
operate in the newly created larger market of the EEC. Thirdly, the
stringent foreign exchange controls that existed in Europe in the
immediate post-war period did not exist in the United States. Finally,
U.S. managers perceived themselves as possessed of an ability to organ­
ise and manage large scale corporations.

The host countries to which this new investment was directed were eager
to attract these firms which were regarded as being able to provide new
jobs, technology, management skills and capital all of which were lack­
ing in their own economies. The strategies of these new arrivals was
essentially simple. Most new subsidiaries were formed to supply a local
market rather than import and each operated independently of the others
being principally identified with the needs of the local market.
Management decision-making, although highly centralised as regards
investment, tended to be delegated whenever possible to local manage­
ment which was principally concerned with the operational effectiveness
of the subsidiary.

In the 1960s, however, the first true multinational corporations started
to emerge. These attempted to build an integrated global strategy where
national boundaries were no longer the relevant building block. While
companies operating in manufacturing or raw material processing were
forced to coordinate centrally global movements of raw materials and
finished products, local managers were still required to exercise con­
siderable autonomy due to difficulties in communications. Gradually,
however, this autonomy has been eroded and more of the key strategic
decisions have been determined centrally.

This centralisation has led to concern among the governments of the
less developed countries which at the same time as the trend to optimise
an overseas strategy. For many the achievement of multinational status was largely accidental and resulted primarily from changes in domestic policies.

In particular, increased competitive pressure coupled with legal restrictions against cartels and decolonisation of the Empire in the 1960s resulted in an increase in industrial concentration as a result of domestic merger activity. A corollary of this was that such mergers often brought together firms each of which conducted minor operations abroad but which in combination created a new enterprise with a substantial overseas commitment.

The first priority of these newly formed or consolidated firms was to rationalise their domestic management structures. Initially the strategy acquisition led to the creation of unstable holding company systems of management which rapidly proved unsatisfactory. As financial performance continued to decline this led ultimately, in the late 1960s and early 1970s, to the widespread adoption of the multidivisional form of organisation. With this new organisational pattern the largest British companies have started to develop coordinated strategies towards their domestic operations and, latterly, towards their overseas activities.

In contrast to the early colonial tradition of British foreign direct investment, which was also partially mirrored by the French and Dutch experience, the non-colonial developed nations of Western Europe have pursued a policy more akin to that of the U.S. multinational corporations. Many major German enterprises were diversified well before the First World War. While some of this overseas activity was located in the German colonies, the more limited nature of this empire meant that the strategies pursued were more centred on expansion elsewhere in
Europe. After the war these operations were largely confiscated but they were reformed only to be confiscated for a second time in 1945. The principal direction of investment nevertheless remained inter-European which, until 1945, included Eastern Europe. To a large extent, therefore, European foreign direct investment may be attributed to the classical economic reasons of tariff barriers, patent protection and transport economies. Relatively little investment, however, was made by German firms in raw material source developing countries.

4.3 THE DEVELOPMENT OF THE MULTINATIONAL CORPORATION IN SOUTH AFRICA

For the reasons outlined in the preceding paragraphs British companies arriving at the turn of the century constituted the first wave of foreign direct investment into South Africa. Initially the accent was on capital equipment for the mines, although a limited number of consumer goods manufacturers, such as Unilever in 1911, established themselves at this time.

In the 1920s and early 1930s most of the U.S. companies now active in South Africa arrived. Exceptions were IBM, which only established itself locally in the 1950s - along with most other data processing companies - and Mobil which has been active in South Africa since 1897. A more typical example was General Motors, which sited its first, and all subsequent, plants in Port Elizabeth in 1926 thereby firmly establishing the motor industry in this area. The company responded geographically to a request of the government of the time which was attempting to alleviate the then white unemployment in the area.

In subsequent years a number of Continental European firms established themselves. However, the next major influx of companies from the mid-1950s onwards were German with, to a lesser extent, Swiss, Dutch,
Italian and Scandinavian firms following while the French opted in the main for agency representation. The Japanese also opened trading houses but lately have become more directly involved through third party investment.

As has been stated in Chapter One, it is impossible to determine which nationality holds what percentage of foreign direct investment in South Africa. Such information is withheld by the South African government to prevent leverage being applied against home governments and investors. At the same time it is difficult to accurately determine the level of dependence of the economy on foreign direct investment.

However, Poolman has estimated that the foreign direct private sector investment in 1977 was divided as follows: (Financial Mail, 27.6.80: p.21.)

<table>
<thead>
<tr>
<th>Region</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>EEC</td>
<td>62%</td>
</tr>
<tr>
<td>North and South America</td>
<td>25%</td>
</tr>
<tr>
<td>Rest of Europe</td>
<td>8%</td>
</tr>
<tr>
<td>Africa</td>
<td>2.4%</td>
</tr>
<tr>
<td>Asia</td>
<td>1.3%</td>
</tr>
<tr>
<td>Oceania</td>
<td>0.7%</td>
</tr>
<tr>
<td>Other</td>
<td>0.6%</td>
</tr>
</tbody>
</table>

The United Nations Centre on Transnational Corporations produced a report on multinational activity in South Africa which estimated that investment from Britain, the U.S. and the Federal Republic of Germany accounts for over 75% of the total direct investment in South Africa with a percentage split of 50%, 20% and 7% respectively based on 1976 estimates. However, following the growth of U.S. and German investment in recent years these percentages are likely to be inaccurate. In addition, Germany's 7% excludes Siemens' South African holdings which are registered in Switzerland. (Financial Mail, Op.Cit.)
A 1978 report by the International Confederation of Free Trade Unions entitled Investment in Apartheid, showed that the number of foreign firms operating in South Africa between 1974 and 1978 increased by 260 from 1,623 to 1,883. (Financial Mail, 27.6.80: p.21.)

Bissell and Crocker made a series of estimates as to American and European investment in South Africa which demonstrate the difficulty of assessing the degree of participation by particular countries with any degree of confidence. These are reproduced in Table 4.1. (Bissell, R.F. and Crocker, C.A., 1979: pp.189-193.)

### Table 4.1 American and European Investments in South Africa: 1975

<table>
<thead>
<tr>
<th>Total Investment</th>
<th>U.S.</th>
<th>France</th>
<th>Germany</th>
<th>U.K.</th>
<th>Total EEC</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct Investment 8.5</td>
<td>19%</td>
<td>1.97%</td>
<td>3-6%</td>
<td>20-35%</td>
<td>64%</td>
</tr>
<tr>
<td>Portfolio Investment 10.4</td>
<td>14%*</td>
<td>6.99%</td>
<td>n.a.</td>
<td>n.a.</td>
<td>56%</td>
</tr>
<tr>
<td>Total Investment 18.9</td>
<td>16%*</td>
<td>4.72%</td>
<td>11%*</td>
<td>26-34%</td>
<td>60%</td>
</tr>
</tbody>
</table>

Note: Where a range of figures is shown, the low figure is official, the higher figure is our estimate.

Estimates are marked (*):

U.S.: Assumes U.S. investment accounts for three-fourths of reported North and South American investment.

Germany: Assumes Germany accounts for $2.0 billion of the total $11.3 billion EEC investment.

Sources:


Germany: Federal Ministry of Economics.


For practical purposes, however, existing direct investment is meaningless. Fixed current assets form a more meaningful yardstick by which to gauge foreign involvement in an economy.

From their initial arrival in South Africa at the turn of the century until the 1950s most foreign firms fell into the classic multinational mould. Their plants were generally little more than assembly workshops for the parent products and their management predominantly composed of expatriates. Most firms operated on the bases of high priced technology agreements with the parent and remitted all surplus cash. The parent companies retained tight central decision-making control.

This has, however, altered considerably in recent years. Average local content, including industries where no such government requirement exists, is approximately 60%. Expatriates now form a minority in management. Few firms now remit surplus cash and most firms have extensive research and development facilities which although some are used for producing original developments, most are used for developing local adaptations. There are certain indications that a reversal of the technology agreements with such firms as Metalbox charging its parent company for local South African technology that flows back to the United Kingdom.

The extent of local autonomy varies considerably with central control being much tighter among U.S. firms, which also tend to retain 100% ownership. In certain U.S. firms any capital expenditure from R50,000 and above has to be agreed both in the budget and by the relevant head office vice president. (Financial Mail, 27.6.80: p.22.)

With European firms, as will be demonstrated, once the budget has been approved in the home country, expenditure becomes the concern of the
subsidiary. In addition, extra budgetary limits tend to be higher than for U.S. firms. It is worth noting that many German and Dutch firms do not have a formal procedure for additional budgetary expenditure but operate more by assessing individual situations as they occur.

4.4 THE ROLE OF THE MULTINATIONAL CORPORATION IN SOUTH AFRICA

Chapter Three described the high degree of political and economic dependency existing among the states of Southern Africa. This in conjunction with the liberal argument that economic growth will bring about social, political and institutional change in South Africa with the consequent implications for the development of the region demonstrates the importance of examining the role of foreign direct investment or, more specifically, the role of the multinational corporation in economic development.

There have been several theoretical approaches to the developmental role of foreign direct investment in the literature. However, the methodological difficulties of developing such a theoretical framework means that such approaches often serve to illustrate the weaknesses in Chapter Two.

The neo-classical analysis of the effects of foreign direct investment, for example, derives from an article by MacDougall published in 1960. MacDougall analysed the static effects of a flow of capital into Australia. (MacDougall, G.D., 1960: pp.13-35.) This inward direct investment was seen as increasing the host country stock of capital and reducing the home country stock in a simple one-for-one manner. The conventional assumptions were applied, namely:
a. there is perfect competition;
b. there is long-run full employment equilibrium;
c. the balance of payments is in equilibrium and is maintained at that level without cost;
d. returns to scale are constant and there are no external economies;
e. there is no taxation;
f. the terms of trade effects are ignored.

**FIGURE 4.1** THE BENEFITS AND COSTS OF FOREIGN DIRECT INVESTMENT

In Figure 4.1 GL relates the capital stock to the marginal physical product of capital given the amount of labour. The initial stock is AC of which AB is domestically owned and BC is foreign owned. Profits on domestic capital are FEBA while on foreign capital they are EDCB. Wages amount to GDF. Should foreign investment increase from BC to BM
profits become JLMB and since the marginal product of capital has fallen total profits on domestic capital decline to IIJBA. Although the increase in real wages amounts to FDLH, FEJH is merely a redistribution from the domestic owners of capital. The host country as a whole gains EDLJ. Thus, the model was interpreted as indicating that the host country gain would be small in relation to the profits accruing to the new foreign capital (KLMC).

However, by dropping certain of the assumptions of the model, certain benefits may be seen to accrue to the host country. Thus, introducing the possibility of external economies from additional foreign direct investment increases the likelihood of benefits to the host country. Such external economies may arise from the introduction of new technology, managerial ability and so on through the host economy. Similarly, foreign firms may introduce production methods which facilitate economies of scale so that proportionate growth in output is greater than the proportionate increase in capital and labour inputs.

However, it is clearly incorrect to suggest that the effects of foreign investment are all beneficial. Once the assumption of perfect competition is dropped, for example, the range of possible outcomes, including adverse outcomes, is considerably increased.

Cost advantages may not be passed on to consumers in lower prices or to workers in higher wages. Instead they may accrue as profits to the parent company. Indeed, as will be demonstrated in the case studies that follow, oligopolistic competition is a notable feature of the multinational corporation. Moreover, fluctuations in the net inflow of private capital and the fact that at least part of the foreign profits earned will be remitted back to the parent company may create balance
of payments difficulties. Thus, problems in turn may result in deflationary measures being taken which will be lower than the rate of growth and produce unemployment.

As may be seen, therefore, the predictions of the model are ambiguous and MacDougall's approach is limited. In particular the comparative static approach is of little use when analysing a dynamic force such as foreign investment. MacDougall's analysis has been extended in several ways but most of these developments have taken place at a high level of abstraction and the models have tended to be oversimplified representations of reality.

Hood and Young argue that if this framework is abandoned it is necessary to revert to "the equally unsatisfactory procedure of reviewing the various areas under which gains and losses could conceivably arise and then judging each individual case on its own merits". (Hood, N. and Young, S., 1979: p.183.) They concede that such an approach would in itself create several difficulties since in most areas there is no prior way of knowing whether the contribution of the multinational corporation would be positive or adverse.

They argue further that such an approach focuses the decision on whether or not foreign direct investment leaves the country any better off than it would have been under any feasible alternative. They then consider the effects of foreign direct investment under four headings, namely: sovereignty and autonomy effects, resource transfer effects, trade and balance of payments effects, and competitive and anticompetitive effects. (Hood, N. and Young, S., 1979: pp.183-227.)

While such artificial isolation may be applied when considering such aspects as the role of the multinational corporation in technology
transfer or the effects of such corporations on sovereignty across a broad range of countries, it is more difficult to do so when examining in detail the role of the multinational in one country or region. Indeed, it becomes necessary to consider not only the powerful inter-relationship between a number of political, social and economic variables but also the reciprocal effects of these on each other and the strategy of the specific organisations under discussion.

In South Africa the role of the multinational corporation has become highly politicised. It is, therefore, useful to consider the role of foreign direct investment in Southern Africa from the point of view of the various political parameters within which the multinational corporation is forced to conduct its operations. To do this the ensuing paragraphs examine South Africa's international strategic position, the international rivalries in Southern Africa, the importance of foreign direct investment to South Africa and the attitudes of South Africans to the multinational enterprise.

4.5 THE POLITICISATION OF THE MULTINATIONAL CORPORATION IN SOUTH AFRICA

International criticism is often presented by the South African government as part of a Soviet strategy to gain control of the Cape Sea route and South Africa's strategic mineral reserves. This point of view is presented by Van Rensburg in a South Africa Foundation Briefing Paper on South Africa's mineral reserves. (Van Rensburg, W.C.J.) This paper strongly criticised the United States for generally having been "more concerned with South Africa's political and social structures than with the realities of strategic geography - the importance of the country in terms of raw materials, industrial power and military position". While "on the other hand the Soviets understand South Africa's key position
in the global balance of power and have sought for decades to detach South Africa from the West. (Van Rensburg, W.C.J.) In particular it is suggested General Lagovskii's "weak link" principle by which it is possible by controlling the supplies of certain critical raw materials such as chrome, platinum, nickel, cobalt and titanium seriously reduce the United States' military capacity because of the dependence of modern weaponry systems on these minerals.

Professor Van Rensburg argues that South Africa's adversaries have already had considerable success in preventing her from attaining her full potential in the export of minerals by encouraging churches, banks, corporations and other organisations to refrain from investing in the country, by closing merely potential exports, and by organising protests against the exports of South African minerals to South Africa's trading partners.

To argue that criticism of South Africa is communist inspired and directed at detaching South Africa from the West for her strategic reserves is naive and represents a failure to understand the fundamental issues at stake. Criticism of the South African political system, in the experience of the author, in the United Kingdom and Europe takes place because of the inability, as Professor Feldberg has stated, of people "to accept the political dominance of a small minority over a racially and culturally completely different majority". In addition, criticism tends to be levelled by all shades of political opinion.

To imply that such criticism is a result of Soviet penetration of church groups, political parties and other political groupings ascribes great ability to Soviet intelligence networks which would surely be better directed at politically destabilising the countries of which these
organisations are a fundamental part leaving cruder, more directly effective techniques available for dealing with a small country such as South Africa.

However, this is not to deny the strategic importance of the Cape Sea route or that of South Africa's mineral deposits. The position of the Cape of Good Hope makes the seas around it one of the world's major strategic trade routes given the limited capacity of the Suez Canal and the somewhat ephemeral nature of peace in the Middle East. This is readily demonstrated by information published by the Foreign Affairs Research Institute in 1978 and 1979 showing that the estimated needs of the West shipped via the Cape route included:

- 25% of the United Kingdom's food;
- 57% - 68% Western Europe's oil imports;
- 70% Western Europe's raw materials imports;
- 50% Western Europe's exports of consumer and capital goods.


The United States Strategic Institute has estimated that in the early 1980s 60% of U.S. oil imports will be via the Cape. Figure 4.2 illustrates how this route could, in time of crisis, be threatened by the Soviet navy. (Hoek, P.W., 1980: Op.Cit.)

General Lagovskii, a leading Soviet logistician, stated and illustrated the vulnerability of Western sea transport in the following manner:
"The problem of sea communications for the Western countries even today is recognised as one of the most important problems in the conduct of war. The solution to the problem of supplying the NATO European armed forces with fuel, for example, depends almost entirely on the operation of a tanker fleet to effect the shipment of oil from the Middle East to Europe." (Lagovskii, A., 1960 quoted in Herrick, R.W., 1968: p.100.)

Tables 4.2, 4.3 and 4.4 show the importance of South Africa in the production of strategic and other raw materials.

For both political and strategic reasons four major forces - the West, the Soviet block, China, and the Third World - are engaged at different levels in the struggle to obtain a new political and economic equilibrium in South Africa. The Third World, Soviet Union and China share the common objective of ending white power in the subcontinent but they are often divided over the means to achieve this end. The Soviet Union and China do not agree on tactics and means of influence within the Third World and these rivalries are increasingly noticeable within Southern Africa. The West on the other hand has been torn between defence and its long established interests in this area and its fear that failure to achieve further satisfying transitions to majority rule will lead to an intensified black/white conflict in Namibia and South Africa. Third World countries, and in particular the Black States bordering South Africa are undivided in their aim of aiding Black South Africans to achieve full political rights within South Africa or "Azania". However, their policies are inevitably affected by their perspective on how best to achieve this objective and by their own interests. Nevertheless, following the independence of Zimbabwe and the regional
### TABLE 4.2 SOUTH AFRICA'S ROLE IN AFRICA'S MINEABLE MINERAL RESERVES (1975) AND PRODUCTION (1976) expressed as a percentage of Africa's reserves and production

<table>
<thead>
<tr>
<th>Mineral Type</th>
<th>South Africa Reserves 1975</th>
<th>Africa Production (t) 1976</th>
<th>South Africa's Role 1976</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Rank</td>
<td>%</td>
<td>Rank</td>
</tr>
<tr>
<td>Platinum group metals</td>
<td>1</td>
<td>91</td>
<td>1</td>
</tr>
<tr>
<td>Andalusite/Sillimanite/Kyanite</td>
<td>1</td>
<td>97</td>
<td>1</td>
</tr>
<tr>
<td>Vermiculate(Crude)</td>
<td>1</td>
<td>94</td>
<td>1</td>
</tr>
<tr>
<td>Gold(Metal)</td>
<td>1</td>
<td>90</td>
<td>1</td>
</tr>
<tr>
<td>Coal(Anthracite, Bituminous)</td>
<td>1</td>
<td>93</td>
<td>1</td>
</tr>
<tr>
<td>Vanadium(Metal content)</td>
<td>1</td>
<td>99</td>
<td>1</td>
</tr>
<tr>
<td>Antimony(Metal content)</td>
<td>1</td>
<td>99</td>
<td>1</td>
</tr>
<tr>
<td>Chrome Ore</td>
<td>1</td>
<td>85</td>
<td>3262780</td>
</tr>
<tr>
<td>Manganese Ore</td>
<td>1</td>
<td>96</td>
<td>8189626</td>
</tr>
<tr>
<td>Asbestos(Fibre)</td>
<td>1</td>
<td>59</td>
<td>577783</td>
</tr>
<tr>
<td>Fluorspar</td>
<td>1</td>
<td>85</td>
<td>451895</td>
</tr>
<tr>
<td>Uranium(Metal content)</td>
<td>1</td>
<td>72**</td>
<td>5733</td>
</tr>
<tr>
<td>Nickel(Metal content)</td>
<td>2</td>
<td>31</td>
<td>50450</td>
</tr>
<tr>
<td>Zinc(Metal content)</td>
<td>1</td>
<td>77</td>
<td>260508</td>
</tr>
<tr>
<td>Silver(Metal)</td>
<td>1</td>
<td>80</td>
<td>329541</td>
</tr>
<tr>
<td>Iron Ore</td>
<td>1</td>
<td>38</td>
<td>51399943</td>
</tr>
<tr>
<td>Diamonds(Gem, Industrial)***</td>
<td>High</td>
<td>-</td>
<td>28674700c</td>
</tr>
<tr>
<td>Tin(Metal content)</td>
<td>3</td>
<td>8</td>
<td>13372</td>
</tr>
<tr>
<td>Copper(Metal content)</td>
<td>3</td>
<td>11</td>
<td>1462971</td>
</tr>
<tr>
<td>Phosphate Rock(Conc)</td>
<td>4</td>
<td>2</td>
<td>25781000</td>
</tr>
<tr>
<td>Lead(Metal)</td>
<td>1</td>
<td>52</td>
<td>n/a</td>
</tr>
<tr>
<td>Titanium(Metal)</td>
<td>1</td>
<td>55</td>
<td>n/a</td>
</tr>
</tbody>
</table>

* Confidential Data
** Includes SWA
*** South Africa is Africa's largest producer of Gem Diamonds

Sources: South Africa: Minerals Bureau, Department of Mines
Africa: Mineral Trade Notes, U.S. Bureau of Mines
Industrial Development Corporation of South Africa

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### South Africa's Strategic Mineral Reserves and Production, 1977

(Facts of only 8 of the 57 minerals produced in the RSA):

<table>
<thead>
<tr>
<th>MINERAL</th>
<th>RSA's % of West's Production</th>
<th>RSA's % of West's Mineable Reserves</th>
<th>RSA's % of World Mineable Reserves</th>
<th>RSA + USSR % of World Mineable Reserves</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chrome Ore</td>
<td>51</td>
<td>84</td>
<td>81</td>
<td>84</td>
</tr>
<tr>
<td>Manganese Ore</td>
<td>37</td>
<td>93</td>
<td>78</td>
<td>93</td>
</tr>
<tr>
<td>Vanadium</td>
<td>53</td>
<td>90</td>
<td>49</td>
<td>97</td>
</tr>
<tr>
<td>Platinum</td>
<td>87</td>
<td>89</td>
<td>75</td>
<td>99</td>
</tr>
<tr>
<td>Gold</td>
<td>73</td>
<td>64</td>
<td>51</td>
<td>68</td>
</tr>
<tr>
<td>Fluorspar</td>
<td>11</td>
<td>46</td>
<td>35</td>
<td>50</td>
</tr>
<tr>
<td>Uranium</td>
<td>13</td>
<td>16</td>
<td>n/a</td>
<td>40-50</td>
</tr>
<tr>
<td>Diamonds</td>
<td>25</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
</tr>
</tbody>
</table>

*Source: Minerals Bureau, SA Department of Mines, May 1979 update*
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development conferences in Arusha and Maputo, a consistent approach is beginning to emerge among the frontline states in their strategy for escaping South Africa's "economic hegemony".

The communist powers have no interests of their own to defend in Southern Africa and have, in the past, stood to gain by committing themselves fully to challenging the status quo. Their situation is completely different from that of the Western powers. Although the Western powers have long lost the political hegemony they held over the subcontinent they retain considerable economic and strategic interests in the area as well as a measure of influence following the Lancaster House Agreement. However, the challenge to the West comes primarily from the African and not from the communist world. Following the independence of Zimbabwe there is still the call for dependable allies to assist in the struggle to achieve majority rule in Namibia and South Africa.

It is this international arena that the multinational corporation enters when operating in South Africa. The multinational corporation in South Africa is perceived to represent Western interests and therefore Western intransigence as regard positive change. In addition, organisations operating in South Africa, it is argued, give tacit support to the apartheid philosophy by firstly their mere presence, and secondly by their ability to operate successfully within an economic system, based on a morally unacceptable ideology. This has been recognised in South Africa and the policy is to encourage foreign direct investment which although it might not be a seal of approval provides at least some positive recognition. For its part international business interests have been politically active in South Africa in terms of attempting to bring about a degree of change. However, this has tended to occur in periods
of low levels of economic activity and high levels of political activity, the most recent being in the recession between 1977 and 1979. However, fundamental change introduced by the multinational corporation operating in South Africa has been limited. Firstly, it is now recognised that such codes as the Sullivan and EEC codes of conduct might actually be retarding positive development on the labour front by providing organisations with a framework to hide behind. Secondly, such codes represent unacceptable moral imperialism to the black workers who have had no part in their preparation and who have merely been told that such codes exist and that their company will attempt to adhere to them. Such patronising paternalism is being increasingly questioned by representative trade unions which claim that the black worker should be permitted to speak for himself in determining the conditions under which he is to work.

Internally there is evidence that black urban attitudes to foreign investment are undergoing change and that many who, in the past have extolled the benefits of foreign companies, are now starting to question the role of such investment. Many blacks have agreed that foreign investment creates jobs, improves the economy providing trickle down effects, and gives companies an opportunity to influence the situation in South Africa.

Myers cites Lucy Mvubelo of the 24,000 strong black clothing workers union and chief Buthelezi of Inkatha, the largest political grouping in South Africa as follows:

"Lucy Mvubelo..... recently stated, 'the MNCs have been an asset to us ..... why should the world be so cruel as to call for these companies to withdraw when we are only now getting some sunshine in that very dark country of ours?' and chief Buthelezi told Forbes magazine in 1978,
'it is morally imperative that American firms remain active here ..... and support us in our struggle ..... even though the business aspect may well present problems.' He rejected withdrawal because foreign investment fed growth and, 'as industry expands propelled by domestic and foreign investment a severe shortage of qualified men is gradually approaching, and black people are of necessity being advanced to more responsible positions.' He said a 'call for a low down on investment or actual disinvestment ..... (is) a call for an aggravation of exactly the conditions we are struggling against ..... What kind of struggle for independence can you wage from a level of utter impoverishment?'' (Myers, D., 1980: pp.50-51.)

Both Mvubelo and Buthelezi, however, put caveats on the performance of companies operating in South Africa. Buthelezi argues not for mere passive investment but for such companies to play an active role in bringing about positive change, while Mvubelo stresses that it is up to American companies to improve economic opportunities for blacks. (Myers, D., 1980: p.51.)

Percy Qoboza, the former editor of South Africa's largest black paper, member of the Soweto Committee of Ten, and a security detainee now living in exile in the United States argued in 1978 that "To impose economic sanctions on South Africa would be to acknowledge total abandon­ment of a peaceful negotiated settlement. What is more, the creation of economic chaos here would expedite the very thing we are desperately trying to avoid: a bloody racial confrontation". Qoboza applies the same caveat as Buthelezi and Mvubelo, however, that "companies must be compelled to play a far more active role in helping to remove the walls of discrimination in our country". (Time, 1978.)
Steve Biko explaining the position taken by the South Africa Student Organisation and the Black People Convention, stated at the trial of nine SASO leaders that SASO leaders never thought that foreign firms would as a result of their stand withdraw and that they recognised that there were limitations that made it impossible for companies involved in the South African economy to withdraw. Biko argued that a major theme of the campaign for withdrawal was to increase pressure on South Africa by using the foreign investment issue as a political forum and a means by which to put foreign governments in a position where they would have to press for change through their companies as well as by normal political means. (Millard, A., 1978; Myers, D., 1980: p.53.)

Attitudes to investment in South Africa by Western firms have varied from that of total withdrawal through not expanding investment to full support. The demands on organisations such as Barclays Bank and Rio Tinto Zinc by various pressure groups are well documented and I do not intend to discuss these already well researched cases. However, it is useful to examine certain ethical questions that have to be faced by the organisations contemplating withdrawal because of pressure from the home country. Firstly, withdrawal from South Africa means financial withdrawal. Fixed capital remains in South Africa placing productive facilities and therefore the labour force in the hands of South Africans. Thus, any impetus for change would easily be lost. Secondly, strong legislation exists to limit the repatriation of funds from South Africa entailing in certain cases low interest loans to the South African government. Thirdly, the direct effects of withdrawal are likely to be felt by the black work force in a time of already high black unskilled and semiskilled unemployment and less so by the white skilled labour force already being supplemented by an estimated 20,000 skilled workers
from the United Kingdom in 1981. While to a large extent migrant labour and to a very limited degree urban blacks can fall back on the rural and tribal areas given the extend of family system in the homelands for support, this does not apply to the overwhelming majority of urban blacks. Thus the decision to call for a withdrawal of investment is not one that should be taken lightly. In certain cases this can mean starvation and the destruction of an effective means of political leverage.

Finally, as has been seen in Zimbabwe "liberation" in South Africa is likely to occur in two phases. Firstly, the political/military liberation bringing about black majority rule but which requires a strong economic base both to develop the people and to meet their rising expectations. The second phase is that of economic liberation which is achieved through the development of black enterprise ultimately controlling significant sections of the economy. This has been recognised by Enos Nkala, who urged Zimbabweans to follow the example of the Afrikaner in recognising the importance of the economic factors. Black majority rule without a sound economic base would leave South Africa at the mercy of world charity which, as Robert Mugabe's attempts to obtain economic aid has shown, is very limited.

Foreign capital and foreign trade are critical to the economic development of South Africa. South African economists have estimated that foreign capital alone is responsible for approximately one-third of the growth in South Africa's GDP.

It has provided funds to critical growth sectors of the South African economy such as electronics, telecommunications, petroleum processing and mining. However, figures on foreign investments can be misleading as they do not reflect the true extent to which South Africa has to
rely on foreign investment particularly the technological, managerial, and other skills which accompany such investments. Suckling has suggested that foreign technology accounted for 40% of the growth in South Africa's Gross Domestic Product during the period between 1957 and 1972. (Suckling, J., Weiss, R. and Innes, D., 1975.)

Without foreign capital South Africa would find it impossible to achieve a rate of growth sufficient to provide jobs for its rapidly expanding population. Between 1975 and 1978 South Africa suffered its worst recession since the depression of the 1930s. Unemployment among whites, Coloureds and Asians, while still small increased by 117%. Between 1976 and 1977 unemployment among Blacks was far greater with government figures showing 633,000 blacks unemployed in October 1977 with the figure falling to 569,000 by February 1978. However, such figures, because of the difficulties in developing such statistics, understate the position. Some unofficial estimates have put the unemployment figure at 25% of the black workforce. (Myers, D., 1980: p.40.)

South African government officials estimate that a growth rate of 5.5% will be required in future years to absorb new black workers coming into the job market. The Unit for Forward Research at Stellenbosch University has estimated that this would require $1 - $2 billion per annum in new foreign capital. While this growth rate has been exceeded in 1979 and 1980, the task is still enormous as South Africa will need to create 8.5 million jobs by the turn of the century. (Myers, D., 1980: Op.Cit.)

Recognising the importance of foreign capital to its development, South Africa has actively sought foreign investments. Its investment terms for example:

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a. all current income may be repatriated;

b. there are numerous concessions to companies interested in establishing operations in government designated growth areas including low interest loans, preferential transportation rates, cash rebates, and tax concessions;

c. companies may use rand purchased at a discounted price (financial rand) for a variety of investments.

The preceding paragraphs have described certain of the major political, economic and ethical issues facing foreign enterprise wishing to engage in direct investment in Southern Africa. However, there are further issues which serve to determine the nature of the role of the multinational corporation in the region and it is useful to examine these before suggesting a model for the analysis of the strategic approach taken by individual organisations in response to the conflict situation they find themselves in when operating in South Africa.

Perhaps the most important of these is their adaptation to the South African style of business and management which has tended in the past to be described as mid-Atlantic or Anglo-American in approach although in recent years this is changing to a more European approach. Other areas of significance are technology transfer, marketing, etc. However, these are of more relevance to the analysis of the case study and interview element of the dissertation.

In South Africa the social aspect plays a far greater role in business than it does in Europe or the United Kingdom. In particular there is far greater emphasis on the entertainment of business associates. However, it is often difficult to distinguish between normal competitive
business practice and what may be termed "questionable business practices". Business dinners, theatres and so on with the seller or contractor paying tend to be acceptable in South Africa. Some organisations, particularly those of Swiss, German and Japanese origin tend to entertain all of their business associates at large rather lavish parties. One Japanese company had a reputation for its parties at the Carlton Hotel with beluga caviar, oysters and other culinary delights. British companies, however, tend to ignore or underplay this aspect of business.

While it is unofficially acceptable practice for companies to give executives of organisations with which they do a considerable amount of business a Christmas hamper containing various minor luxuries or wines and spirits not exceeding £50, there exist definite unwritten rules as to size and contents with most firms conforming to the standard. However, there is little bribery or corruption at senior executive levels and almost none at lower levels. Nevertheless, there have been at least two cases of serious corruption at senior levels of South African state or parastatal organisations. However, comment on these is beyond the scope of this chapter.

With the growth of Afrikaner business and entrepreneurship in conjunction with Afrikaner political control and the goal of achieving more economic power, other practices have emerged. Steinmuller of Germany, for example, has sought the services of a Pretoria advocate who could provide the necessary facilitating contacts at ministerial level thereby easing its entry into the South African market and the establishment of a manufacturing facility through which it could cater to the South African, Argentinian and Brazilian markets.
The use of such individuals for their political contacts can lead to certain difficulties such as when a large Japanese and a British manufacturer of heavy capital goods found themselves competing for a major state contract with a mutual member of their local boards of directors who was supposedly assisting each to the full extent of his abilities.

There have been incidents of questionable practices where, for example, South Africa's dependency on certain countries such as France and Germany for particular strategic requirements has been used by those countries to apply leverage to obtain a favourable outcome to particular business negotiations.

What emerges, therefore, is an unwritten code of conduct as to what is acceptable or unacceptable. There have been incidents where unethical or questionable business practices have been adopted or the law negated but these tend to be frowned upon and leave a bad feeling serving to harm business interests more often than assist them. As a result they are comparatively rare.

With a government committed to a particular ideology and which has built upon its power since 1948 it is clearly in the interests of any organisation to develop both ministerial and civil service contacts (particularly since senior civil servants tend to be political appointees). However, this can lead to problems both at home, in the third countries and later within South Africa itself.

Firstly, where a company is seen to have close ties with an unacceptable regime it may bring public opinion at home against it. Secondly, with Black majority rule in Zimbabwe and Mozambique as well as growing international efforts to bring about majority rule in South Africa, the possibility of a Black government in a unitary South African state
cannot be ruled out. Clearly any organisation which had been seen to cooperate more closely than necessary with Nationalist leaders would be subject to considerable pressures.

The multinational corporation seeking to operate in South Africa will, therefore, find itself in a series of conflict situations. In industrial relations, for example, foreign firms have found themselves in the position of having, against South African government wishes, to recognise non-registered Black trade unions. In such a situation non-recognition of such unions, which are on the forefront of political discussion because of the strong political restrictions but comparatively liberal labour laws in South Africa, could result in severe criticism of the organisation in its home country. However, recognition against the advice of the South African government could similarly result in censure in South Africa. This was the situation faced by the Chloride Group. Indeed, Chloride was the first firm in South Africa to recognise an unregistered Black union. It was followed, to the relief of its Chief Executive, a week later by Barlows - a large South African group.

Similarly, the multinational corporation is likely to face criticism from its own unions wishing, as in the United Kingdom, both to protect jobs in the home country and to take a particular stance against what is perceived to be an unacceptable ideology.

Criticism from certain shareholders or pressure groups with nominal shareholdings may also be encountered although this has tended in the past to be more of nuisance value other than when deliberate campaigns have been organised as in the case of Barclays Bank. As these campaigns have been well documented and, as commented upon elsewhere, this chapter
will not add further to an already burgeoning literature. The issue is, however, highly sensitive and the researcher was intrigued to later find out that when approaching one British multinational for its annual report and its supplement on the firm's operations in South Africa his correspondence had been immediately forwarded to the Chief Executive.

In South Africa the firm will have to decide on the ethics and morality of investment or continued investment. In such situations the ethical perceptions of individual decision makers cannot be separated from their decisions within the organisation itself. This will have a direct bearing on the approach of the organisation to business practices in South Africa, its marketing strategy as regards consumers from different racial and economic backgrounds, etc. The question of this separation of ethical perspective between the home or personal environment and the business environment is commented on by P.D.V. Marsh. (Marsh, P.D.V., 1980.) Unfortunately he limits his comments to observations within one country. It would be of interest to determine the change in the ethical perspective of individuals when dealing with different countries with different cultural, religious, class and political perspectives to his own. However, such a discussion is beyond the scope of this dissertation although it is of direct relevance to the issue of the development of multinational corporate strategy and its relationship to economic development in the full sense of the term, and is discussed within this context in Chapter Six.

In the analysis of such conflict within the multinational corporation, it is both feasible and analytically convenient to draw a clear distinction between the management of political risk and conflict management in the strategic approach of the organisation in most parts of
the world. However, there are certain countries where the fundamental nature of any conflict situation is likely to be determined by the ideological and political milieu within those countries as well as by their relations with other countries. It is in their willingness to abstract from this basic reality that many writers fail in developing their theoretical approach.

Gladwin and Walter, however, in discussing conflict management in relation to politics, human rights, industrial relations, terrorism, technology marketing, the environment, business practices, and consider the political and ideological context within which decisions are made as well as the implications of such decisions in the South African situation. (Gladwin, T.N. and Walter, I., 1980.) Thus, it is recognised that it is not sufficient to merely analyse conflict in terms of the conventional unidimensional cooperative - uncooperative dichotomy which tends to oversimplify the complex range of behavioural options available to the multinational enterprise.

In recognition of this Gladwin and Walter have adopted Thomas's two dimensional model of conflict behaviour to develop a framework within which to analyse the determinant of the appropriate conflict behaviour by the multinational corporation. (Thomas, K.W., 1976: pp.889-935.) This framework suggests that in any given conflict, the behaviour likely to be most functional is a product of the interaction of four parameters:

- outcome stakes;
- relative power;
- interest interdependence
- relationship quality.

(Gladwin, T.N. and Walter, I., 1980: pp.555-557.)
Figure 4.3 illustrates this. As continuums there are an infinite set of values which each of these four variables might have. This is also true for cooperativeness and assertiveness. The five points on the grid represent the extremes of what may be seen as behavioural zones:

- an avoidance zone;
- a collaborative zone;
- an accommodative zone;
- a compromise zone.

(Gladwin, T.N. and Walter, I., 1980: pp.52-65.)

It should be noted, however, that the four situational variables are perhaps not equally important. The two variables related to the desirability of the outcome stakes and the interest interdependence are more important in assessing a conflict situation than the two variables related to outcome feasibility, relative power and relationship quality. Thus, it is suggested that the motivational structure of the conflict situation is probably a more important determinant of desired conflict behaviour and outcome than that of capability structure as capabilities are more readily changeable than basic underlying motives.

While this analytic model of conflict behaviour is extremely useful in the analysis of particular conflict situations and readily applicable to multinational operations in South Africa, it is incomplete without implicit recognition of the overall strategy of the multinational corporation which determines the parameters within which reaction to conflict may take place.

Strategic parameters within which strategy is determined is the subject of the next chapter which uses Doz's and Higgins' approaches to develop
a three dimensional strategic matrix thereby formulating a strategic taxonomy and corporate typology which will be used to establish a methodological framework within which to analyse the empirical element of Chapter Six.

FIGURE 4.3 DETERMINANTS OF APPROPRIATE CONFLICT BEHAVIOUR

Source: Gladwin and Walter, 1980: p.556.
4.6 CONCLUSIONS

As has been suggested in Chapter Three, South Africa is a country of irony with the two forces of Afrikaner and Black nationalism leading to confrontation. That such confrontation will take place cannot be denied. The politicisation of the role of business in this context makes the setting of both policy and strategy extremely difficult as the issues are far beyond the normal role of business and the Western conception of the political interplay between government and business. In the view of the researcher it is crucial for investment and trade to continue. The reasons for this have been argued fully in both this and previous papers. However, it is difficult to assess what business will expect in terms of return on investment now and how it perceives its potential return in the future. To a certain extent such questions make it extremely difficult to examine political risk solely in terms of premium for risk, go/no-go decisions or standard forms of risk analysis. The issues in question are highly subjective as the preceding paragraphs have attempted to demonstrate.
CHAPTER FIVE
A STRATEGIC TAXONOMY

5.1 INTRODUCTION

Preceding chapters have concentrated on developing an understanding of the Southern African milieu and the role of the multinational corporation. Emphasis has been placed on the establishment of a framework upon which to base an analysis of the contribution of the multinational corporation to economic development defined in terms of the cultural, social, political and economic objectives described as necessary conditions for the achievement of a universally accepted aim - "..... the realisation of the potential of the human personality". (Seers, D., 1972.)

This chapter seeks to consolidate this approach by attempting to expatiate the conflict between the economic imperative and the political imperative in the determination of multinational corporate strategy. The discussion provides a theoretical foundation upon which to develop a strategic taxonomy of companies operating or seeking to operate in South Africa. In Chapter Seven a strategic/developmental matrix utilising a subjective analysis of the contribution of each strategy within the taxonomy to specific dependent developmental variables is suggested. This determines the analytical framework within which the analysis of the empirical element of the dissertation will be carried out and through which it is possible to assess the contribution, both actual and as perceived by their management, of particular firms, which are the subject of in depth case studies or semi-structured interviews, to the economic development of South and thereby Southern Africa. This chapter is, therefore, concerned with both theory and methodology.
The previous chapter argued that many writers have overdramatised the role of the multinational corporations by suggesting that their activities may seriously reduce the economic and political sovereignty of the less developed countries. Even as respected an economist as Kindleberger has, for example, stated that "the nation state is just about through as economic unit", and that "tariff policy is virtually useless ...". (Kindleberger, C.P., 1969.) Monetary policy is in the process of being internationalised. The world is too small. It is too easy to get about. Two-hundred thousand ton tankers and ore carriers will not permit sovereign independence of the nation state in economic affairs. Penrose takes issue with this approach. Firstly, she suggests, the arguments designed to persuade a country that its welfare would be increased by rapid and comprehensive "integration" with the advanced countries via the international firm are inconclusive and unconvincing. Secondly, and of greater relevance to South Africa, Penrose points out that the people of the developing countries appear to want to demonstrate their competence and independence and to establish their own priorities - and insist on doing so. Finally, she suggests that economic inequality breeds fear of the more powerful. (Penrose, E., 1971: pp.221-239.)

Streeten suggests that three questions arise in attempting to harness the beneficial effects of the multinational corporation and curtailing the harmful effects. Firstly, even if the will and the political power were present, to what extent is it feasible to control the multinational corporation effectively? Secondly, even if there is the political power, is there the will? Finally, even if there is the will is there sufficient political power? (Streeten, P., 1971: pp.240-263.)
Hymer, however, combines location theory with Chandler and Redlich's three level scheme for the analysis of corporate structure thus sketching a model of the multinational corporation in the international economy. (Hymer, S., 1970.) Their head offices, in which the framework of control is centred and where global strategy is determined, are located in the major cities of the world. Below these cities are arranged a hierarchy of lesser, though still large cities, which are concerned with communications, information and all other functions involved in coordinating and supervising the managers of the production and distribution activities that take place at the next level below. The "Level III" activities are devoted to managing the day-to-day operations of the enterprise and are spread widely over the earth, their location being determined by the pull of manpower, markets and raw materials.

South Africa at present is determined to maintain its sovereignty and independence in political and economic issues. Using Hymer's framework, however, it may be argued that the major industrial areas of South Africa lie between "Level III" and "Level II" of his structure. South African subsidiaries will, therefore, exercise comparatively little control over multinational corporate strategy other than at a local operational level. However, such an approach implies a homogenous strategic approach by the majority of multinationals despite differing market perceptions, technologies, the varying importance of countries to the operations of individual companies and the greater importance of the political factor in certain countries. Such an approach, therefore, fails to recognise the differing degrees of autonomy of multinational subsidiaries operating in various countries as a result of the selection of individual strategies more relevant to their operations abroad.
by particular firms. However, as pointed out in the previous chapter, certain broad trends may be discerned among the firms originating in a particular home nation. For example, U.S. firms exercising a greater degree of centralised control than British firms operating in South Africa.

It is within the framework of their differing strategies that the developmental contribution of the multinationals to South Africa in relation to their perceived role may be assessed.

Before continuing, however, it is necessary to dissipate some of the semantic confusion surrounding the literature.

Christopher Lorenz writing in the Financial Times emphasised the importance of clear definition. (Lorenz, C., Financial Times, 27.6.79.) He points to the lack of a clear and generally accepted vocabulary and argues that "Every company's quest for the form of planning which suits it best is needlessly confused by jargon; not so much the very fact that specialised terminology is used to describe concepts or techniques, but that there are generally no accepted meanings for each piece of jargon". Clearly then an acceptable definition of corporate strategy in the international context must be attempted.

Eels points out that "strategia" in the Greek referred to generalship and the art of military command exercised to meet the enemy in combat under advantageous conditions. (Eels, R., 1976: p.185.) However, it is only in very recent times that there has been any extensive literature on the nature of strategy concerning "the elusive nature of the thread of opposition and conflict that runs through the various relationships of men from the striking of a bargain to the dread clash of war". (McDonald, J., 1950: p.11.) It is in the economic relationship,
or striking of a bargain that, as Higgins argues, several definitions of strategy and strategic planning appear. For example, Andrews states that "corporate strategy is the pattern of major objectives, purposes, or goals, stated in such a way as to define what business the company is in or is to be in and the kind of company it is or is to be".

(Andrews, K.R., 1971, cited in Higgins, J.C., 1980: p.1.) Similarly, Dymsza argues that "strategic planning is especially significant for it looks at the basic philosophy, directions and objectives of the company in the years ahead". (Dymsza, 1972: p.55.) Chandler refers to strategy as "... the determination of the basic long term goals and objectives of an enterprise, and the adoption of courses of action and allocation of resources necessary for carrying out these goals". (Chandler, A.D., 1962.) Some writers stress the relationship of the organisation to the environment. Ansoff, for example, states that "Strategic decisions are primarily concerned with external, rather than internal, problems of the firm and specifically with the selection of the product mix which the firm will produce and the markets to which it will sell". (Ansoff, H.I., 1968: p.18.) Steiner and Miner see strategy as "... forging of company missions, setting objectives for the organisation in the light of external forces, formulating specific policies and strategies to achieve objectives, and assuring their proper implementation so that the basic purposes and objectives of the organisation will be achieved". (Steiner, G.A. and Miner, J.B., 1977, cited in Higgins, J.C., 1980: p.1.)

This chapter defines strategy as the determination of the nature of the interaction between the explicit and implicit objectives, missions, goals, and tasks of the organisation in anticipation of, or in reaction to, events that are taking place or have taken place, and which affect
the internal and external milieu within which the organisation seeks to operate. As such, strategy is dependent upon the inherent ethos of the organisation and is reflected in the MNC in the degree to which, for example, emphasis is given to the economic or socio-political elements of the environment in the planning process, the management, and the structure of the organisation.

Strategic planning, therefore, is vital to the multinational corporation in its attempts to respond to its changing boundary position and the turbulence of its environment, and thereby ensuring its survival. The evolution of multinational corporations over the last decade has been characterised by a growing conflict between the requirements for economic survival and success - the economic imperative - and the adjustments made necessary by the demands of society and the state in the home and host countries for the achievement of certain social and political objectives - the political imperative. Several writers have pointed to the fact that companies are increasingly having to earn acceptance in a social and political context and that successful economic performance is no guarantee of acceptability. Higgins, for example, in discussing the future of strategic planning and strategic and operational planning systems suggests a matrix of socio-political performance and economic performance. However, such a matrix neglects the effect of structure on socio-political responsiveness and effectiveness, particularly in the international context. It is, therefore, necessary to consider some of the direct and indirect links between strategy and structure. Indirect links may be perceived to exist where structure is determined by the characteristics of the technology employed, by the nature of and variations in the environment, and by size. Direct links may be perceived to exist where the structure may be explained by the
nature and diversity of the products and the markets of the organisation.

Thus, the ensuing paragraphs analyse the strategies and administrative processes used by multinational corporations to reconcile the conflicting economic and political imperatives. In so doing it revises and adapts the work done by Doz (Doz, Y.C., 1980) in his extensive field research involving multinational corporations in Europe and the United States to provide a strategic taxonomy within which to assess the contribution of the multinational corporation to South African economic development.

5.2 A STRATEGIC TAXONOMY

Doz suggests that it is possible for the multinational corporations to respond in several ways to the conflict between the economic and political imperatives. (Doz, Y.C., 1980: pp.27-44.) However, these responses will essentially conform to one of three approaches. Firstly, the organisation may, for example, respond to the economic imperative and follow a worldwide strategy where the activities in various countries are integrated and centrally managed.

This would be the most attractive solution for companies that have extensive manufacturing operations in several countries. The activities of such plants could be integrated and their operations rationalised among the countries in which the multinational operates.

Here individual plants may provide only part of the product range thereby achieving greater economies of scale. Alternatively, plants may be specialised by stages in the production process and may be located in various countries according to the cost and availability of production factors for each stage.
Essentially, therefore, the driving principle behind an integration strategy is the reduction of unit costs and the capture of large sales volumes; in industries where economies of scale are significant and not fully exploited within the size of national markets, it may bring sizeable advantages in productivity. It has been suggested that where integration brings about substantial cost advantages over competitors, the integrated firm may be able to allocate part of the benefits of higher internal efficiency to incur, what may be termed, "good citizenship" costs in the host countries and still remain competitive with non-integrated firms. Indeed, Doz points to the fact that a number of firms have a policy of full employment, balanced internal trade among countries, and performance of research and development in various countries. Clearly such a policy may lead to less than optimal decisions in a short-term financial sense. However, such a policy may also be the key to the host country's long-term acceptance of the company.

The benefits of integration not only enable the MNC to be better tolerated because of its ability to incur higher citizenship costs, but integration itself can be seen as making expropriation less likely in the less politically stable areas of the Third World. Integration provides the MNC with more bargaining power and turns extreme solutions to conflicts with host governments into outcomes where both the host country and the MNC stand to lose.

A well articulated worldwide integration strategy simplifies the management of international operations by providing a point of view as to the environment, and a framework for the identification of key sources of uncertainty as well as a purpose in dealing with them. Such a strategy may also guide managers in adopting a proactive stance.
The simplicity of the driving principle of an integration strategy makes a consistent detailed strategic planning process possible by providing a unifying focus to the various parts of the organisation. This process both guides the implementation of strategy and provides for its refinement and evolution over time.

The second strategic approach suggested by Doz (Doz, Y.C., 1980) is that of national responsiveness. In pursuing a strategy of national responsiveness subsidiaries are permitted more freedom to respond to the political imperative. Nevertheless, the affiliation of the subsidiaries to the MNC can bring them certain definite advantages over purely local competitors, namely:

a. the pooling of financial risk;
b. the spreading of research and development;
c. the coordination of export marketing to increase overall success in export markets;
d. the transfer of specific skills between subsidiaries.

In this approach, each subsidiary remains free to pursue an autonomous economic or political strategy nationally as its management sees fit given the situation of the national industry.

In industries where the state plays a key role, national strategies are primarily politically orientated, whereas where other local factors are important sources of differentiation, but where the state plays a less prominent role, the strategies tend to be economic.

Such a strategy involves seeking structural and administrative adjustments instead of pursuing strategic solutions to the conflict between the economic and political imperatives. Such adjustments are aimed at
providing some of the benefits of both worldwide integration and national responsiveness.

The strategy implied is that of allowing each strategic decision to be made on the basis of its own merits and to challenge prior commitments. Thus, individual decisions do not fit into the logic of clear goals the logic of which are tested against a comprehensive analysis of the environment and an assessment of the organisation's capabilities. Strategy here is not the search for an optimal fit, but, rather, a series of limited adjustments made in response to specific developments without an attempt to integrate these adjustments into a consistent comprehensive strategy.

The need for such adjustments emerges when new uncertainties are identified. These uncertainties may offer opportunities or threats or lend themselves to conflicting interpretations. Instead of taking a stable proactive stance vis-a-vis the environment and relying on the chosen strategy to provide a framework within which to deal with the sources of uncertainty and make specific decisions as the need arises, MNCs using administrative coordination absorb uncertainties and attempt to resolve conflicts internally over time each time new uncertainties question prior allocations of strategic resources. Thus, strategy becomes unclear, shifting with the perceived importance of changes in the economic or political environment, and it may become dissolved into a set of incremental decisions with a pattern which may make sense only ex post. Essentially, therefore, administrative coordination trades off internal efficiency for external flexibility.
5.3 THE DETERMINANTS OF STRATEGY

It is useful to examine the selection of the strategic approach by the multinational managements in terms of a number of variables, for example:

- market structure;
- technology;
- government interaction;
- management accountability, and political risk.

5.3.1 Market Structure

The range of possible multinational strategies depends firstly upon the structure of the world market in terms of customers and barriers to trade.

Firstly, the technology and economies of production for certain products would strongly suggest global rationalisation. In many cases, however, the political imperative may be so strong as to prevent such rationalisation. Recent research by Mirow and Maurer as well as investigations by a U.S. senate committee and Professor Newfarmer have indicated that integration may take place not only within the structure of one multinational but across an international industry. (Mirow, K.R. and Maurer, H., 1982; Newfarmer, R., 1980; Epstein, B. and Newfarmer, R, 1980; U.S. Senate Committee on Interstate and Foreign Commerce and its Subcommittee on Oversight and Investigations, 1980.) Thus, where the international trade volume for power systems is low and subject to intense expensive competition internationally, integration strategies have been followed not only within particular firms but also across the industry through the International Electrical Agency. The IEA
determines the allocation and tender approach of the industry to particular contracts as well as the combatting of outsiders.

However, certain restrictions come through the monopoly power of state controlled entities. This has resulted in the Developed countries in contracts for large turbogenerator units and other heavy capital equipment being awarded to national companies. This aspect of international integration will be discussed in the analysis of the empirical element of this dissertation. Secondly, at the opposite extreme, there exist products that are traded freely, the sales of which do not depend on location or the nationality of the manufacturer and for which economies of scale beyond the size of the national markets are significant. In such industries the only strategy is clearly that of international integration.

Thirdly, there are businesses - for example computers and semiconductors - the markets of which are partly government controlled and partly internationally competitive. In such industries, where both the political and economic imperatives are critical, multinationals face the most difficult choice between the various alternative strategies some firms may choose to integrate their operations while others may decide to decentralise their operations to better match the demands of individual governments and benefit from their support and assistance. Others may not make a clear strategic commitment and may instead resort to a strategy of administrative coordination.

However this choice is likely to appear significantly different to different firms according to their competitive posture. Within the industry in broad terms, however, firms with the largest overall shares of the world market are likely to find integration more desirable.
There are several reasons for such a choice:

a. Assuming there are unexploited economies of scale; large firms may achieve lower costs through integration than can smaller firms.

b. It may be hypothesised that larger firms have more influence on their environment than smaller firms and thus find it more suitable to centralise strategic decision making and reduce environmental uncertainty.

c. Finally, national companies may attempt to achieve economies of scale through interfirm agreements for the joint manufacture of particular component or product lines. Over time these national companies may attempt to move to a globally integrated system.

In conclusion, it is possible to hypothesise the existence of a relationship between the extent of government control over (and limits to) international trade in an industry, the relative international market share of a firm active in that industry, and the type of strategy it adopts. In industries where free trade prevails competitors may be expected to follow an integration strategy. In industries in which governments take a keen interest but where they only partly control the market, and where formal free trade prevails, all three strategies are likely to coexist within an industry. Finally, in industries where the political imperative prevails and where the markets are mostly state controlled all competitors may be expected to adopt a strategy of national responsiveness.
5.3.2 Technology

Technology is generally regarded as an important variable in the interface between multinational corporations and host governments and may be seen to play a fundamental role in determining the nature of the conflict between the economic and political imperatives within the industry. Multinationals that control the technology of specific industries have more power in bargaining with host governments and are able to create technology barriers to competition from national firms. Often the minimum scale requirements increase so rapidly in high technology industries as to make it almost impossible for national firms to catch up.

Doz argues that higher technology products are likely to correspond to freer foreign trade. Firstly, as will be argued, there is strong evidence to suggest that multinational corporations most often introduce innovations into their home markets first. As long as the technology is not adopted by many countries, freer trade is likely to prevail for newer products than older ones. Secondly, using the technology diffusion process within the multinational corporation, the need to transfer new technology rapidly to subsidiaries creates pressures to increase coordination among them. Thus, it may be hypothesised that within an industry where the political imperative is significant, higher technology firms strive for integration while lower technology firms strive for national responsiveness.

It should also be recognised that technological evolution can increase the minimum efficient scale of an industry and call into question the validity of a strategy of national responsiveness.
Even in a situation where restricted trade prevails, as the minimum efficient scale increases in a high technology industry, pressures grow for domestic mergers and rationalisation. Where multinationals and national firms compete, government interest may prompt mergers into the local national firm rather than allow the national industry to be controlled entirely from outside. A strategy of national responsiveness makes such mergers easier for the host government to implement.

As may be seen from the discussion above, a move to higher technology and new products can permit a firm, on the one hand, to be more multinationaly integrated and centrally managed than it would otherwise be. There is an unclear causal relationship here as integration is made possible by higher technology but is also required to facilitate technology transfer within the MNC. On the other hand, it has been argued above that very high technologies become extremely important in developed countries and prompt governments to attempt to narrowly control their development and use. Further, higher levels of technology often result in a higher minimum efficient scale. This scale of production may be used by integrated MNCs to defend their market shares. In industries where trade is restricted, the government may respond with a policy of mergers into an emerging "national champion" or, secondly, the development of multinational government sponsored programs. In both cases the MNCs stand to lose. Thus, it is essential to an MNC, and to the executives running individual businesses in diversified MNCs, to recognise those changes in the market, industry structure and technology that foreshadow a need to change the overall strategy.

5.3.3 Management Accountability and Political Risk

In areas of high political risk the strategy adopted may have significant
implications for the bargaining power of the firm with the government of the countries in which it operates. In particular large integrated multinational corporations may be able to take a stronger position vis-a-vis individual government when required and woo them with the higher costs of good citizenship. How much integrated firms may be willing to give host governments as costs of citizenship may vary substantially. However, it is possible to argue that the more one integrated firm is submitted to direct competition from other firms the less willing it will be to provide host governments with citizenship costs except in exchange for profitable moves that competitors will not be permitted to match.

Where companies have been criticised in their home countries for conducting operations in such countries as South Africa, two alternatives are open to them. The first is that of a strategy of integration where positive moves may be made to rectify or improve internal policies through direct intervention and the following of such intervention by close monitoring. In the second, the firm may choose a strategy of national responsiveness which allows the local subsidiary to adapt to local conditions and claim the defence that it is subject to the customs and laws of the country concerned. In South Africa such an approach has been strongly criticised by the government in recent years and has also been condemned by pressure groups operating in the United Kingdom, Europe and the United States. Clearly, with a strategy of integration accountability for the actions of local operations would rest firmly with the central management of the multinational corporation while with a strategy of national responsiveness such accountability would be more likely to rest with the local management.
Having proposed a taxonomy of multinational strategies based upon the work of Doz, it is necessary to extend the argument so as to develop a strategic matrix to facilitate the analysis of the contribution of the multinational corporation to economic development.

5.4 A STRATEGIC MATRIX

The preceding paragraphs indicate that a simple two dimensional matrix, such as that suggested by Higgins, showing socio-political responsiveness on one axis and economic effectiveness on the other is an oversimplification in the extreme. (Higgins, J.C., 1980: p.231.) Whether in the national or international environment several other factors have to be taken into consideration in determining the nature of the relationship between the multinational corporation and its environment. Such factors include the basic philosophy of the firm, the nature of the markets in which it operates or seeks to operate, the level of technology involved, the extent to which host governments are prepared to use coercive power in the reduction of what Fayerweather terms the "Span of conflict", etc. (Fayerweather, J., 1969: p.107.) These factors are clearly reflected in the strategy the multinational corporation seeks to adopt as well as its structure if (following Hall and Saias rephrasing of Chandler) "structure follows strategy". (Hall, D.J., 1980: pp.149-163.)

Thus, it is necessary to consider a third dimension in developing a matrix showing the conflict between the economic and political imperatives. This is illustrated in Figure 5.1 where the political and economic imperatives are shown in the conventional manner, but where the third axis shows the strategic perspective of the multinational corporation given the nature of its perception of the optimum strategic
position to adopt in the face of the conflict between the economic and political imperatives in the countries in which it operates.

Such a matrix also provides a useful means for developing a typology of multinational corporations according to the strategic perspective adopted.

The next chapter uses both the strategic taxonomy and the corporate typology suggested by this matrix as the basis of an assessment of the developmental role of the multinational corporation in South Africa.
FIGURE 5.1 A STRATEGIC TAXONOMY FOR THE CLASSIFICATION OF FIRMS OPERATING IN SOUTH AFRICA

- ECONOMIC IMPERATIVE
- INTEGRATION
- NATIONAL RESPONSIVENESS
- ADMINISTRATIVE COORDINATION
- POLITICAL IMPERATIVE

high

low
CHAPTER SIX

AN INTERVIEW BASED INVESTIGATIVE STUDY OF
THE ROLE OF THE MULTINATIONAL CORPORATION
IN SOUTH AFRICAN ECONOMIC DEVELOPMENT

6.1 INTRODUCTION

Lipset argues that there are two approaches to the analysis of case study material. (Lipset, S.M., 1970.) The first approach, he suggests, may be designated as a particularising or ideographic type of analysis which is restricted to the description and explanation of a single problem situation in order to provide information on the present state of things and their dynamics. The second approach utilises the generalising analysis which attempts to derive empirical generalisations from the study of case material utilising the findings as a basis for wider empirical generalisations.

The ensuing chapters utilise the first approach in the form of an interview based study to determine how the managers of particular organisations perceive the interaction between strategy and the South African political and economic milieu. To achieve this the development of the role of the firm is examined in three discrete steps and a strategic-developmental taxonomy proposed:

a. Firstly, interviewee responses are examined on a comparative basis to determine how those with responsibility for operations in Southern Africa perceive the economic and political environment faced by enterprise in the subcontinent. As may be seen from the preceding chapters, it is not sufficiently emphasised in the literature that
South Africa is an African country and its economic dominance of the region together with the wider effects of its internal policies preclude an isolated examination of its economic development and reference to political and economic relationships must be made. The importance of this becomes even more apparent when it is recognised that all of the organisations interviewed, including Company C (see Section 6.2), had interests in more than one country in the region.

b. Secondly, the influence of the ethics of foreign direct investment in South Africa on the developmental role of the multinational enterprise is discussed. The ethical parameters of the investment decision are determined by the management ethos and moral attitudes of members of the firm which, as Marsh argues, may not be separated from their ethical perceptions outside the work environment. (Marsh, P.D.V., 1980.) Such perceptions have a fundamental role in determining overall management ethos and thereby the nature of the strategic response to such demands as those for the recognition of unregistered unions and equality of opportunity and wages which, as will be demonstrated, have important implications for the social and political elements of the development process.

c. Finally, the interviewee identified determinant of strategy are considered under nine headings which allow an analysis of the reciprocal effects of certain strategic determinants on a number of developmental variables. The similarities
in strategic approach, although discussed fully in the conclusions, are worth noting at this point. Firms appeared to develop remarkably similar positions to certain elements of the South African economic environment. It would be of interest to examine these in relation to firms from other nations to determine to what extent strategy is a function of nationality.

Thus the development of the developmental role of the multinational corporation in South Africa is discussed in terms of management perceptions of Southern Africa, the strategy of direct investment and the role determining ethical framework.

The chapter concludes by analysing the nature of the strategic-developmental interaction. The strategic approach adopted by each firm is classified according to the three-dimensional taxonomy of the preceding chapter and related normatively to a series of developmental objectives founded upon those suggested in Chapter Two. This concludes that the developmental contribution of long-term foreign direct investment in manufacturing plays a positive role in economic development as defined in this dissertation. However, this is contrasted, in Volume II, with a detailed study of the potential negative effects of short-term involvement by service agencies in the heavy electrical industry and the effects of secret cartels on world development.

However, before continuing it is useful to briefly consider the selection of firms for this study and the interview method adopted.

6.2 INTERVIEWEE SELECTION

In the ensuing discussion the firms approached are designated Co-A, Co-B,
etc., while the individuals interviewed are referred to in terms of their company and position held as follows:

- **Od-A** Director of Overseas Operations Company A
- **Ce-B** Chief Executive Company B
- **Md-C** Managing Director Overseas Operations Company C
- **Ch-D** Chairman Company D
- **Ed-E** Executive Director Company E
- **Ch-F** Chairman Company F
- **Cn** Consultant and Corporate Advisor.

The only exception to this confidentiality is made in the case of the Christian Association of Business Executives, a non-commercial body providing in many instances, an international forum for the type of issue raised in Section 6. of this Chapter. However, the willing frankness of the commercial organisations interviewed makes such confidentiality necessary as will become clear in the ensuing paragraphs.

The selection of firms for this study was determined by a number of criteria. It is useful to examine these in relation to the particular organisations chosen and then in relation to certain broader issues.

The Christian Association of Business Executives (CABE) Code of Conduct together with the discussion with its director, Hugh Kay, provide a unique approach to the ethical dilemma faced by those undertaking direct investment in South Africa. At the same time Hugh Kay's involvement with the problems inherent in such investment from the point of view of the organisations involved is made clear through his reinterpretation of the role of the multinational as being not only economic and thereby political, but as also involving ethical decisions which are inherent to the strategy formulation process although not
sufficiently recognised as such.

Co-A and Co-B are examples of what may be termed "conventional" multi-national corporations in terms of the definitions contained in Chapter Four, although the Director of Overseas Operations of Corporation A argued that:

"Co-A is not a multinational corporation. The only common thread is electrical products. It is not a business ..... it is a financial controller." (Od-A)

This rejection of Co-A's multinationality will be considered in more detail in ensuing paragraphs where it is suggested that despite a policy of decentralisation and diversification within the electrical and electronic industries such organisations may still be regarded as multinational where central control is retained over the financial strategy of each member of the group, their investment strategies, the appointment of key managers and the technical aspect of each firm's operations.

Co-B is structured on a geographical basis with strong central control over both the financial and technical aspects of its operations. It has a strong reputation in what has been termed "social responsibility" and is at the time of writing in serious difficulties following serious losses at home, the loss of a large proportion of its overseas management in what have become periodic purges and near market saturation of its products. It is unusual for a British company without a strong foreign shareholding in that in recent years it has had two South African Chief Executives, both of whom have very similar backgrounds in the Eastern Cape Province where they were educated. Questions as
to the continuity of policy and style were raised during the interviews.

Co-C and Co-D were selected for their strong family associations. The Co-D example, although somewhat dated, is relevant from two points of view. Firstly, Co-D's operation in South Africa was purchased by Co-B and now provides the basis of the penetration of the South African industrial market for Co-B's products. Secondly, it provides a useful illustration of a successful paternalistic organisation operating in an area, the people of which both the founder and his son professed a great admiration, leading ultimately to friendship with certain leading political figures. Despite its paternalistic and highly effective method of management Co-D had a large non-family shareholding.

Co-C, however, is owned by one family. Despite this it has adopted a demanding approach expecting its overseas operations to survive without home assistance once established. Nevertheless, as will be demonstrated, it provides its overseas management with the independence to achieve their budgeted results.

Co-E was selected for several reasons. Firstly, to illustrate the rise of the multinational in industrialising countries such as Brazil, India and South Africa. Co-E is a mining-finance house that has diversified into a number of sectors as is demonstrated by the number of appointments held by the interviewee, an executive director of Co-E in construction, property and life insurance companies. Secondly, this example demonstrates the differences in strategic thinking between European organisations and an indigenous South African organisation. One example of this is the encouragement given to senior executives to become involved in the political process. This was illustrated by the role of one executive in the Zimbabwe peace process as well as the use
of some executives to carry messages between President Kaunda and Prime Ministers Vorster and Botha. Finally, it is interesting to observe the extent to which an organisation which is highly critical of a political system is nevertheless dependent on that system for its successful operation.

The discussions with the Chairman of Co-F and Cn, a specialist on Central Africa, place Southern Africa within the African context and provide a basis for an analysis of the regional political and economic structure which has to be taken into account in the development of an approach in the development of an approach to operations in South Africa by the multinational corporation.

Given the requirement of the study that as far as possible interviewees should not be constrained in their perceptions by particular structural parameters but should rather have an overall understanding of the ethos and direction of the enterprise, the researcher was limited to making approaches at board level. Implicit in this was a recognition that the time that would be granted to the researcher would be limited. Thus, questions would have to be concise and cover broad points of interest.

Secondly, the nature of the issues to be discussed immediately limited access. Organisations are extremely sensitive to enquiries about their operations in South Africa. In many instances it is policy for the Chief Executive to be immediately informed of any such enquiries.

Thirdly, there has in recent years been considerable criticism of academic research into industry. Research students have been accused of raising irrelevant issues, having an approach to industry that is both too academic and naive, and, finally, wasting employee time through
badly planned interviews.

These considerations had to be weighed against the requirements of a viable and relevant study of the issues considered by the researcher to be of significance in assessing the role of firms concerned with South African development. By the very nature of the study proposed it was essential to obtain a diverse selection of organisations to secure the information required to ensure that a representative cross section of the types of multinational corporation in South Africa was selected.

6.3 AN INTERVIEWEE BASED ENVIRONMENTAL EVALUATION OF SOUTHERN AFRICA

The knowledge and attitudes of those in a position within the enterprise to determine or, at least, influence policy and strategy in the countries surrounding South Africa are of considerable significance to the enterprise operating in both areas. Because of the economic relations existing within the region many firms have established themselves in South Africa and have either exported to other countries in the region or, to satisfy various legal/political requirements, exported components to simple assembly operations in these countries. In certain instances the political implications of the independence of Zimbabwe have resulted in several firms establishing themselves in other countries recognising the potential for increased ideological and military tension in the region.

Co-B, for example, has retained its operation in South Africa while establishing new plants to cater for African needs in Zimbabwe and Kenya thereby gaining "good citizenship" credit in each country while at the same time insuring against political risk. While this may continue in such industries it is doubtful whether it is a feasible course
of action for high technology firms or those with a high capital requirement.

This Section, therefore, seeks to determine how interviewees evaluate the African environment and in what way this contrasts with their perceptions of the South African environment. This distinction in outlook, it is argued, determines the role that European management sees industry and foreign direct investment as playing in South Africa.

The initial determinant of the response of the multinational corporation to immediate decision making requirements or to long-term opportunities and threats is the polymathic understanding of its senior policy making and influencing executives and their conceptualisation of the national, regional or international environment within which their organisations operate. For example, such knowledge, in many cases, delimits the geographical area within which the firm conducts its search for opportunities and is based on the expertise developed in the particular environments within which the firm may have operated during its historical development.

"People have differing perceptions and certain directors are hesitant about areas they don't know. If Co-B was not involved in such countries as Uganda or Zaire and was thinking of going in I would say 'no'. But, because we have expertise in these areas, I am determined to support our operations there." (Ce-B)

Further, unanticipated immediate decision-making requirements, irrespective of whether these carry short- or long-term implications, must of necessity be founded on the knowledge base of the individual concerned
and his conceptual framework of the environment within which he is operating. For the individual manager the two situations outlined may be illustrated as in Figure 6.1.

Few people do not have some cognition of the economic and political problems of Africa and South Africa. The ensuing paragraphs, however, examine the responses of the interviewees thereby depicting the African political and economic environment facing foreign enterprise based upon a synthesis of their perceptions which, as is demonstrated in Table 6.1 illustrating each interviewee's evaluation of the African environment, are remarkably similar.

Because of the economic and political relations existing between the countries of Southern Africa and the implications of these for the strategy of firms wishing to utilise the large advanced Southern production and market capacity while at the same time operating in other states in the region, the discussion examines the perceptions of those with interests in Africa in addition to those with interests in South Africa. The relevance of this will be seen in relation to the strategies of such organisations as Co-B. Further, occurrences in Zimbabwe are being observed with keen interest by those who see long-term similarities with South Africa, the implications of which are clear for the future strategies of many firms operating in Namibia and South Africa.

Initially, in discussing the African environment, a national classification on the basis of a series of economic evaluations appeared to be a feasible base for analysis. However, few firms attempt such a taxonomy.
FIGURE 6.1 A COGNITIVE FRAMEWORK OF STRATEGIC DECISION MAKING

TRIGGER INFORMATION → PROBLEM EVALUATION/ANALYSIS → ALTERNATIVE SELECTION → STRATEGIC FRAMEWORK → RESPONSE

APPLICATION OF EXISTING KNOWLEDGE

ECONOMIC AND POLITICAL AWARENESS → EXPERIENCE → ENVIRONMENTAL PERCEPTIONS

KNOWLEDGE BASE
"Co-A is entirely pragmatic in looking at the economics of the situation. It also examines the non-economic factors - corruption, political instability and so on." (Od-A)

Indeed, some organisations take a diametrically opposed view in Africa:

"In most of Black Africa we look at the political scene and see how it relates to the economic scene and position ourselves accordingly." (Ce-B)

The analysis, therefore, takes place under four headings which illustrate the main issues perceived to be relevant by the interviewees, namely:

- political leadership;
- political stability;
- economic development;
- the role of industry.

The discussion focuses firstly on Africa and then specifically on South Africa.

6.4 AN INTERVIEWEE EVALUATION OF THE POLITICAL AND ECONOMIC ENVIRONMENT OF AFRICA

6.4.1 Political Leadership in Africa

The ethos of political leadership determines the priorities of the state in developing its political and economic strategy and thereby the place of private enterprise and foreign direct investment in the framework of national economic development. Thus, a rational understanding
of the nature of leadership in areas of high political sensitivity is
required as an input in the firm's policy formulation process.

The leadership of such countries as Zambia and Tanzania is composed of
political leaders who have successfully led their countries in the
struggle against colonialism to independence. However, in the post-
independence period their leadership has remained ideological in charac-
ter as they lack the technical expertise to face the post-independence
problems of development. In part this may be reinforced by the extreme
dualism of such countries where, in many instances, the leadership
relies on those not directly involved in the generation of wealth for
office.

"Leaders in Africa are political and do not have an
economic background. Problems tend to be considered
politically as leaders rely on non-workers for office."
(Cn)

This is aggravated by the tremendous expectations gap which emerges on
independence and which, as Zimbabwe has demonstrated, is difficult to
meet thereby resulting in the continuing search for political solutions
to economic problems.

"There is conflict between the economic and political
in Africa. These are countries which are predomi-
antly rural with a veneer of sophistication. There
is an expectations gap on independence which is made
worse by the departure of those who manage the
economy and it becomes more difficult to operate."
(Ce-B)
Because of the nature of the power base there is a general reluctance to bring about fundamental change to stimulate economic development.

"If the economy requires something different they have to be prepared to sacrifice the political for this. If prosperity means that this has to be done then the answer is no. They would rather keep the social structure the same." (Cn)

Thus, there is a greater politicisation of the economic parameters within which the firm operates in Africa. Strategy formulation, therefore, has to be considered not only in terms of its commercial and economic implications but also the political influence the state is likely to bring to bear in achieving its ideological goals.

"There is not so much political risk as political mismanagement." (Ce-B)

6.4.2 Political Stability

One of the major threats to political stability from the economic point of view is the expectations gap that emerges on independence. Zimbabwe, for example, faces a real threat in this sense in addition to the instability generated by the post-independence division of loyalties. In the more established states the failure to meet the aspirations of the people over time has led to discontent.

"People want more immediately. There are limited resources, few management skills and (for political reasons) they make it more difficult to operate. There is a danger of ending up like Zambia, or, worse, Tanzania. Kenya has done a remarkable job
but the new rulers face terrible tensions because of this expectations gap. It is incredible that Nyerere and Kaunda are still in power after making such a mess of their economies." (Ce-B)

In a negative sense, the lack of indigenous ideology to provide viable alternatives provides a degree of stability.

"The Zambian government is reasonably stable. There were difficulties in the Rhodesian war. There is no alternative. The people involved in the recent coup attempt had nothing substantial to show that it could succeed." (Cn)

The preceding paragraphs suggest, therefore, that future leadership and stability will continue to be perceived by those in government as being determined substantially by political considerations. By contrast, those interviewed interpreted such questions in terms of the ability of the leadership to encourage the generation of wealth which would provide an economic rather than political answer to the aspirations of the people of Central and Southern Africa.

6.4.3 Economic Development

While there may be consensus as to the nature of the economic difficulties faced by the countries of Central and Southern Africa in the view of outsiders, there is considerable uncertainty as to the future of Zimbabwe.

"Co-B is very depressed about how Black Africa is going down. We are hoping that Zimbabwe will hold but it seems that there is little hope. Zambia is terrible,
Tanzania is worse, Kenya is struggling, Zaire is a mess while Malawi is dependent on Banda. In Zambia there has even been a deterioration as regards people's physical safety. (Ce-B)

The reasons for such difficulties are varied. However, examples were readily cited:

- Transport costs:

"Zambia is well placed geographically. However, one of the major problems is that of communications and the impact of oil prices on the development process." (Cn)

- Social and economic attitudes:

"The economies are declining. There has been insufficient change in the economic fabric. Private enterprise is associated with colonialism and exploitation. However, people don't realise you cannot share wealth you don't have." (Cn)

- Political:

"Malawi relies on Zimbabwe for assistance. This is being turned off because Mugabe is not enamoured with its role during the war." (Cn)

- Lack of technical and management skills in government:

"On independence she (Zambia) had a good balance of payments surplus, a profitable mining industry and a high degree of optimism. Yet, through mismanagement it failed." (Cn)
Numerous reasons may be listed for the economic failures of these economies. However, it is of more relevance to the ensuing paragraphs to examine the disagreement as regards the future of Zimbabwe.

"Mugabe will be successful if he is realistic. His infrastructure is far better." (Ch-F)

"In Zimbabwe
- there is the start of a deficit;
- Mugabe is severing relations with South Africa;
- an enormous amount of trouble is being caused by a breakdown in discipline;
- people are looking for the fruits of independence while living off political favours." (Cn)

This disagreement reflects the unique nature of the post-independence economic potential of Zimbabwe which is founded upon a well developed economy although tempered by deep tripartheid political divisions. In addition, because of the sanctions applied following the Rhodesian unilateral declaration of independence, the economy remains strongly dependent on South Africa although this is politically embarrassing for the Zimbabwean government and is being used by the South Africans to apply pressure to Prime Minister Mugabe. A recent example of this was the withdrawal of a large amount of South African rolling stock from Zimbabwe.

"South Africa and Zimbabwe have not realised that they have a common future and have been trying to score common political points. South Africa must be more mature in this as she has a tremendous interest in making Zimbabwe work." (Ch-F)
Despite attempts to reduce the dependency on South Africa because of its internal policies and the fear of South African hegemony economic dependency remains as strong. While, therefore, from the point of view of policy it is necessary to regard each country on its own, the strategy adopted by the multinational corporation must of necessity recognise the large productive capacity, markets and efficient communications system of the South.

"We regard Zambia and the other Black African countries on their own. But, if you look at the interdependency it is part of Southern Africa with trade routes going south. You do not easily reverse the sensible facts of history. These countries do not want to trade with South Africa but they have to." (Ce-B)

The South Africans, in attempting to rationalise the economic interdependency of the south, have proposed a "Constellation of Southern African States". Other countries in the region, partly fearing South African hegemony but also recognising the need for such rationalisation, have responded by forming the "Southern African Development Coordination Conference". Thus, where there is interaction this is because of economic necessity with political considerations preventing optimisation of the Southern African economic system. As will be shown, this has major long term strategic implications for firms with significant interests in both South Africa and Southern Africa.

"The constellation idea is sensible if South Africa gets in and makes it work. This is difficult, however, as most countries are trying to keep up with the OAU Jones's. They jibe at South Africa
but this does not put food into people's mouths. Until apartheid is gone South Africa will never be accepted." (Ch-F)

6.4.4 Private Enterprise

Historical events have served to reinforce the view of the present generation of leaders that private enterprise is exploitative rather than creative of wealth. This has led to an ambivalent attitude in many countries to foreign direct investment resulting in policies based on the perceived exploitative nature of such activity.

"There is always conflict or ambivalence towards private enterprise. In Central Africa ministers see socialism as fitting in with African life and therefore such policies are more favoured as they are more comfortable." (Cn)

Despite this there is considerable optimism about commercial opportunities in Africa.

"Responsible companies have had a good time. There have been pressures, but that is natural. It is in Zambia and Tanzania that the biggest problems emerge. Big companies will not work within such constraints." (Ch-F)

One view was that such countries may offer greater opportunities to certain firms than the highly competitive markets in Europe and the United States.
"I personally believe that the opportunities for British companies are far greater in the less industrialised states than they are in the more heavily industrialised states of Europe or North America. I believe the opportunities for Co-C are far greater in the Third World." (Md-C)

However, it is clear that it requires a sound understanding of the conditions under which firms are required to operate as well as experience on the part of management in the home country. This will be discussed in relation to personnel development in ensuing chapters.

"Our new factories have been completed. It was a battle but we were determined to fight through. Fortunately, we have people who know how to trade under these conditions." (Ce-B)

The preceding paragraphs discuss the issues seen as relevant by the interviewees in operating in Africa. Table 6.1, however, illustrates their subjective environmental evaluation of each country in which they have had experience. This demonstrates a broad consensus of opinion as to the major problems facing future African development and the implications of this for firms operating in these areas. The problems facing the firms are seen as essentially strategic.

By contrast, when examining the environment facing the international firm in South Africa, the discussion rapidly focused on such questions as political change and the role of foreign direct investment in this. Implicit in this, as will be demonstrated, was the ethical justification of the firm operating in an economic system based on what is regarded by certain interviewees as a morally unacceptable political system.
<table>
<thead>
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<tr>
<td>- economic</td>
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<tr>
<td>Approbation of change</td>
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<tr>
<td>- socio-political change</td>
</tr>
<tr>
<td>- economic change</td>
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<tr>
<td>Power base</td>
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<tr>
<td>- non-worker (tribal, urban, etc.)</td>
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<tr>
<td>- worker</td>
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<tr>
<td><strong>II. POLITICAL STABILITY</strong></td>
</tr>
<tr>
<td>Destabilising expectations gap</td>
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<tr>
<td>Political alternatives unavailable</td>
</tr>
<tr>
<td>Civil order breakdown</td>
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<tr>
<td>Inter-tribal conflict</td>
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<tr>
<td><strong>III. ECONOMIC DEVELOPMENT</strong></td>
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<tr>
<td>Economic decline since independence</td>
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<tr>
<td>Causes: - communications difficulty</td>
</tr>
<tr>
<td>- lack of skills</td>
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<td>- regional relations</td>
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<tr>
<td>- political ambivalence to wealth creation</td>
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<tr>
<td>Role for private enterprise</td>
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<td>Regional dependency:</td>
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<tr>
<td>- on South Africa</td>
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<tr>
<td>- other</td>
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<td><strong>IV. SCOPE FOR PRIVATE ENTERPRISE</strong></td>
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<td>Political attitude to private enterprise</td>
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<td>Developmental role perceived</td>
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<td>Existence of opportunities</td>
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<td>Experience requirement</td>
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</table>

**Key:** Ke - Kenya  Ma - Malawi  Ta - Tanzania  Za - Zambia  Zi - Zimbabwe
While ethical considerations exercise a major influence on the perceptions of the individual it is necessary, for the purposes of analysis, separate the discussions on the individual's perceptions of South Africa and his ethical framework. Nevertheless, it is useful in the ensuing discussion to recognise that there may be a conflict facing individuals who may disagree with particular policies of the South African government and yet are, through the operations of their companies, faced with the necessity of conducting their activities within the constraints of the system. Very little research has been devoted to this potential conflict between the ethical framework applied by the individual in the conduct of his daily activities and that of his organisation in the conduct of its operations.

The ensuing paragraphs, therefore, examine interviewee perceptions of the South African business and political environment before discussing, in general terms, the ethical and moral issues of investment in South Africa.

6.5 AN INTERVIEWEE EVALUATION OF THE POLITICAL AND ECONOMIC ENVIRONMENT OF SOUTH AFRICA

6.5.1 Political Leadership and Political Change

Within the South African context it is extremely difficult, given the dynamics of the political development process, to separate the questions of political leadership and political change particularly as interviewees tended to perceive political change as taking place under White leadership. For these reasons they are considered together in the ensuing paragraphs.

Because of the nature of its historical development and the recognition
that political development is a dynamic process which, over the next
decade, will increasingly involve Black citizens, interviewees consid­
ered South Africa to be far more highly politicised than many other
Western-aligned countries at equivalent levels of industrial development.

"Politics is written far larger on South African society.
South Africa still has to make the fundamental decisions
other societies have already made - for example: the
type of constitution it is to have and its economic
system." (Ed-E)

Abstracting from the role of outside pressure on firms investing in
South Africa, this politicisation of the environment has direct impli­
cations for firms with interests in the region. However, those inter­
viewees in industry firmly rejected any positive political role for
the firm in any host country.

"Business in South Africa must prevent itself from being
used by politicians and resist allowing its use as an
active agent of change. It is the kiss of death to
be used as an instrument of change. The answer is to
smile and find a way of not doing it." (Ce-B)

The consensus was that if the system was unacceptable the firm should
not operate in the country.

"We (Co-E) attempt to find out as much as possible
about the system within a country and then operate
effectively within it. Wherever we go we are con­
scious we are guests and that any comment made must
be directly related to our business activities. In
South Africa we are a citizen and so we speak out." (Ed-E)

Such an approach is rejected by groups opposed to South Africa's internal policies and who reject the hedging of firms operating in an area where it is felt that the ethics of their presence may be questioned.

"Firms tend to hide behind the statement that in foreign countries you do not challenge the political system. It is argued that it is none of your business. However, there is a danger that these firms are simply looking for the easiest solutions." (Kay)

However, firms will be drawn into greater political involvement. This is best illustrated in terms of current developments in South African industrial relations. The unregistered trade unions, as has been argued, have the potential to represent Black political aspirations.

"In South Africa in the next ten years the situation will be such that industrial relations will be fundamental to political development. The government has granted full trade union rights to its Black workers, while at the same time they are withholding political rights. Under such circumstances the unions will become the major political battleground."

(Ed-E)

Few firms and none of those interviewed conducted any formalised political risk analysis, and appeared highly reactive in their strategic approaches.
"You can only deal with the facts as they are. When the situation changes you deal with it then." (Od-A)

Because of this reluctance to consider the question of political risk and the involvement of the firm in the political process at a formal level within the organisation, firms will find themselves reacting to increasingly complex and potentially embarrassing situations. Co-B demonstrates the point.

"We had problems in the Eastern Cape first. We either had to say no and be swept up in strife or recognise an unregistered union because it was the least bad and the best to negotiate with. We had a vote in the factory and it was accepted. If the government had said no it could have prevented us. However, we had differing messages from different ministers. One said yes, another said no, while the police were against recognition. Nevertheless, there was a wish clearly expressed by the workers and trade unions are going to be in the vanguard of political change. We took a deep breath and went in. I worried greatly about this but, it was the right thing. For the last nine months it has been good. Fortunately, Barlow Rand followed within a week which took the pressure off us." (Ce-B)

This illustrates how foreign enterprise operating in countries such as South Africa may be drawn into decisions with strong political implica-
tions and adds an international dimension to the demonstration effects outlined in the conventional liberal argument discussed in preceding chapters. The situation is exacerbated by what at times appears to be a lack of definite policy by the South African government. One cause of this is the conflict between Nationalist political priorities and economic realities. To some extent, as is illustrated in the Co-B example, the government is losing control through its lack of a clear policy.

"South Africa has no option but to sacrifice the political for the economic because the ball is already rolling. The best the government can do is act as a brake." (Ce-B)

This is reflected not only in government policy but also in the attitudes of people themselves to change, which has had a fundamental effect on employment policies.

"There have been several changes in South Africa. However, much of this has been cosmetic concerning petty apartheid. It is the change in attitudes that is most impressive. People are far more accommodating of change in the economy and in industry as regards opportunities for Blacks, wages, apprenticeships and improved wages." (Od-A)

The implications of this will be fully discussed when Co-B's role in South African development is assessed.

The preceding paragraphs present a scenario in which those interviewed believed that South African political development would take place
within the parameters of overall White control. Interviewees declared little knowledge of such political alternatives as the African National Congress or the Pan African Congress other than, in one case, to suggest that the exiled political leaders opposed to foreign direct investment in South Africa may be out of touch with Black workers on the issue.

"The nationalist movement in exile is not representative as regards investment. There is a division between the workers and the politically motivated leaders of the liberation movements who are laying down general principles rather than looking at particular predica-ments." (Kay)

Whether deliberately or not most interviewees did not see these movements as playing a major role in the foreseeable future and appeared to be remarkably uninformed as to the nature of these organisations and the degree of support they may have in South Africa.

South Africa is considered to provide an economically stable environment for investment.

"Co-C considered South Africa to be a stable environment. Not so much politically as economically and certainly far more stable than many other overseas operations."

(Md-C)

However, this may be because firms tend to perceive their risk exposure in what may be termed an "international geographical risk portfolio".
"It is not true that South Africa is unstable. Look at the other places we are operating in - Zaire, Uganda, Zimbabwe." (Ce-B)

Certain firms are nevertheless withdrawing for political reasons, although present indications are that these are a minority.

"Some U.K. companies have started to divest. One or two are running scared. With the industrial profits situation in the U.K. and the availability of money in South Africa as well as the overtures from South African companies have put firms in the position where they have had to sell. Some are running scared, but, they do need the money." (Ce-B)

The South African Reserve Bank has facilitated the outflow of cash and has encouraged the takeover of these firms by South Africans. However, this withdrawal is seen by many as being two edged. On the one hand, it is argued, it gives South Africans what is rightfully theirs. On the other, it is suggested that:

"Politically it is not good as continued involvement is important in getting continued British government support. There is far less pressure if we sell to South Africa. The Conservatives, for example, are making it quite clear that they won't go along with a boycott, although they are saying it quietly." (Ce-B)

Despite the withdrawal of such firms South Africa is seen as providing a favourable environment for private enterprise.

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6.5.2 Private Enterprise

Considerable emphasis in South Africa is placed on the role of private enterprise in the generation of wealth. Certain political developments such as the recognition of the permanence of the urban Black population have served to reinforce this view in government and to encourage foreign direct investment.

"The industrial relations environment has been the most important area of positive political change. The second most important political change is more subtle and this is the acceptance that the urban African, despite government policy, is permanent. As a result of this the government is attempting to develop an infrastructure for Blacks. They have to find the money to do this and this is one benefit of a profitable economy. The Prime Minister recognises this." (Ed-E)

While this may be seen in terms of the economic/ideological dichotomy discussed in preceding chapters it illustrates the point that the state sees itself as having a positive role to play in the encouragement of private enterprise. Thus, while there is little direct intervention, government control over the activity of the private sector is never lost. All those interviewed saw this as facilitating their operations.

"The South African economy is what I would call a 'managed free enterprise economy'. It is mildly interventionist. It is certainly one of
the easier countries to operate in in terms of
government influence. This is good for invest-
ment and the manufacturing sector." (Od-A)

The importance of the attitude to enterprise was emphasised.

"The South Africans lie somewhere between the
British and the Americans. They have a better
attitude to business and the creation of wealth
and are far more energetic than the people in
Europe. You have a freer enterprise society and
there is much thinking accordingly. It is a mixed
economy but strongly private enterprise oriented.
Intervention is on balance favourable." (Ce-B)

However, despite the free enterprise approach, certain decisions have
been taken within which military and strategic requirements have been
given priority despite their costs. Thus, the motor industry has had
to follow the government's local content programme, South Africa
manufactures its own diesel units, etc.

"There is encouragement for foreign investment,
local content and local participation in the
equity. However, the word does not come from
on high. It is dropped by people to whom you
know you should listen." (Od-A)

The South African style of business is mid-Atlantic in approach with
American thinking having a strong influence on current management
techniques.
"South Africa is probably the easiest country to operate in. They operate in the Anglo-American way as regards:

- Systems management;
- Hierarchical relationships;
- Their way of doing things. In theory they are very democratic;
- Their financial institutions. Little Johannesburg has very sophisticated financial services;
- The climate of opinion which is more favourable to international firms.

It is easier to do business. If you know where you are heading you get very rapid movement. It is also very optimistic." (Ch-D)

The favourable environment discussed above received only one qualification.

"South Africa is one of the best places in the world to do business if you leave the question of apartheid out." (Ed-E)

"For political reasons many people stay out." (Md-C)

These observations as to the attitude to private enterprise in the South African economy imply a degree of sophistication in terms of economic development.

6.5.3 Economic Development

Perceptions as to the nature of South Africa as a developing nation differ. Interviewees regarded South Africa as a Western country.
"South Africa is highly developed and aligns itself with the highly developed Western nations." (Od-A)

While it was realised that there was a dualistic economy discussion focused on the advanced sector and in particular the Pretoria-Witwatersrand-Vereeniging complex. South Africa is nevertheless highly dualistic. However, only one interviewee consciously pointed to the existence of such dualism and related this to his firm's strategy in South Africa.

"South Africa lies somewhere between the industrialised world and the Third World in terms of its highly developed infrastructure and industrial complex although part of its population is clearly Third World." (Md-C)

Thus, comments as to the nature of the South African economy and its developmental potential when examined in terms of overseas perceptions of this must be related to the advanced sector.

Within this context there is considerable optimism as to the developmental potential of the South African economy.

"If South Africa can retain an orderly and disciplined society it has, because of its wealth, and population, all the ingredients for sustained growth. If South Africa can't there are precious few who can." (Ce-B)

Such statements of confidence in the developmental potential of the economy were, as above, always qualified by the assumption that the political parameters of such development would remain constant.
Interviewees, therefore, appear to consider South Africa as a country presenting a number of opportunities to foreign enterprise, economically stable, having a record of rapid economic growth and, in terms of style of business and financial and legal infrastructure, remarkably similar to Anglo-American trends. However, the international firm is seen as being faced by a society facing fundamental political change where the firm may become enmeshed in the political development of the country. Each interviewee's perception of the South African environment is recorded in Table 6.2.

This, however, abstracts from the ethical considerations which, as has been stated, are of fundamental importance to the argument being developed. Having, thus far, merely outlined the perceptual framework within which strategy is developed as illustrated in Figure 6.1 it is, therefore, necessary to consider how the operations of firms are modified to take into account the moral issues raised by their presence in South Africa. In so doing it becomes extremely difficult to isolate the developmental role of the firm from the moral context within which the managements of many British multinationals see themselves as operating. The ensuing section examines this from the point of view of an ethical framework suggested by an ethicist with a specialist interest in international business ethics. This situational view is then used, when considering the strategies adopted by multinational enterprise, to examine the approaches taken by firms facing major ethical decisions as regards their operations in South Africa.
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<thead>
<tr>
<th>I. POLITICAL LEADERSHIP AND CHANGE</th>
<th>Od-A</th>
<th>Ce-B</th>
<th>Md-C</th>
<th>Ch-D</th>
<th>Ed-E</th>
<th>CABE/KAY</th>
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<tbody>
<tr>
<td>Society Highly Politicised</td>
<td>N/R</td>
<td>P</td>
<td>P</td>
<td>P</td>
<td>P</td>
<td>P</td>
</tr>
<tr>
<td>Political Economic Conflict</td>
<td>P</td>
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<td>P</td>
<td>P</td>
<td>N/R</td>
<td>P</td>
</tr>
<tr>
<td>Approbation of Liberalisation.</td>
<td>P</td>
<td>P</td>
<td>P</td>
<td>N/R</td>
<td>P</td>
<td>P</td>
</tr>
<tr>
<td>Positive Role for Business in Political Development in South Africa</td>
<td>N</td>
<td>N</td>
<td>N</td>
<td>N/R</td>
<td>P</td>
<td>P</td>
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<tr>
<td>Increasing Politicisation of Business</td>
<td>P</td>
<td>P</td>
<td>P</td>
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<tr>
<td>Economic Stability</td>
<td>P</td>
<td>P</td>
<td>P</td>
<td>P</td>
<td>N/R</td>
<td>P</td>
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<tr>
<td>Internal Political Stability</td>
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<td>N</td>
<td>N</td>
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<tr>
<td>Credible Leadership Alternatives</td>
<td>N</td>
<td>N</td>
<td>N</td>
<td>N/R</td>
<td>N</td>
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<tr>
<td>Continued Involvement Important</td>
<td>P</td>
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<td>II. SCOPE FOR PRIVATE ENTERPRISE</td>
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<td>Positive Political Attitude to Private Enterprise</td>
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<td>Developmental Role Perceived</td>
<td>P</td>
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<td>P</td>
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<tr>
<td>Existence of Opportunities (Commercial)</td>
<td>P</td>
<td>P</td>
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<td>P</td>
<td>N/R</td>
<td>P</td>
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<tr>
<td>Compatibility of South African and European Styles of Business</td>
<td>p</td>
<td>P</td>
<td>P</td>
<td>P</td>
<td>N/R</td>
<td>P</td>
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<tr>
<td>Perception of Importance in Wealth</td>
<td>p</td>
<td>P</td>
<td>P</td>
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<td>N/R</td>
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<td>Generation by Government</td>
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<td>Use of Wealth for Political and Strategic Goals by Government</td>
<td>p</td>
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<td>N/R</td>
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<td>III. ECONOMIC DEVELOPMENT</td>
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<tr>
<td>Highly Developed Infrastructure</td>
<td>P</td>
<td>P</td>
<td>N/R</td>
<td>P</td>
<td>P</td>
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<tr>
<td>Economic Dualism</td>
<td>N/R</td>
<td>N/R</td>
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<td>Future Developmental Potential</td>
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<td>N/R</td>
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Key:  P - Positive  
      N - Negative  
      N/R - No Response
6.6 INTERVIEWEE PERCEPTIONS OF THE INFLUENCE OF THE ETHICS OF FOREIGN DIRECT INVESTMENT IN SOUTH AFRICA ON THE DEVELOPMENTAL ROLE OF THE MULTINATIONAL CORPORATION

A discussion on the ethics of investment in South Africa presupposes an assessment of the morality of the policy of separate development. A formal assessment is, however, clearly beyond the scope of this dissertation. Nevertheless, fundamental to the argument being developed is the recognition of the inequalities in such social and political aspects as education, equal opportunities, the opportunity to participate in government, as well as the inequalities in the distribution of wealth. As may be seen, these constitute the major part of the developmental objectives outlined in Chapter Two.

A study of the ethics of foreign direct investment, therefore, in effect examines a major aspect of the development problem - that of how to improve the living standards of the entire population through the interaction between the moral constraints on operating in an unacceptable system and benefitting from it and the benefits of the presence of foreign enterprise.

If, however, the political problem, by linking it with an assessment of the morality of foreign direct investment, is considered in economic terms it is suggested that the welfare of the people may be increased by the reaction of foreign investors to their perception of the ethical problem.

Therefore, it is possible to examine economic development from the point of view of the ethical perceptions of managers and the part these play in the potential development of South Africa through the multinational corporation. This approach may be extended to consider the
nature of the conflict between the individual manager and the firm on questions of ethics. This has not, to the knowledge of the researcher, been considered previously and represents a significant gap in both development theory and in writing on strategic planning.

The dilemma as regards foreign direct investment is of comparatively recent origins, having effectively emerged in the last ten years. However, in the last two years there appears to have been a reduction in the pressure on firms. None of the interviewees were clear as to the reasons for this.

"Criticism of firms operating in South Africa has recently been discussed at the United Kingdom-South Africa Society. We have letters coming in from church groups, trade unions and cranks. In the last eighteen months these pressures have diminished considerably while over the last two years not one shareholder has asked for information."

(Ce-B)

The questioning of the role of foreign enterprise in South Africa may be related to the overall trend in society's demands of its institutions for social responsibility and indeed the idea that enterprise should not function purely in the interests of profit. Other institutions reflect this trend - the catholic church, for example, when after the Second Vatican Council it was said that the church should not only be spiritual but that it also had to be seen to act in the service of the poor. South Africa should, therefore, not be seen as an issue on its own. It is part of a greater trend towards social responsibility and the criticism levelled against the power of the multinational corporation.
"South Africa is not an issue on its own. It is part of the overall problem of the multinational corporation. There is a feeling that the multinationals have a record of exploitation." (Kay)

Operations in South Africa, it may be argued, are justified if outside participation in the economy brings about desirable economic and political development in terms of the developmental goals listed in Chapter Two. Such an argument is based on the premise that operations in South Africa are justified as long as the firm, in achieving its declared objectives, simultaneously reduces the morally unacceptable element of the environment in which it operates.

"If you ask what are the moral issues, one has to look for the greater good. It is a matter of balancing the harm of action against long-term goals." (Kay)

If this principle of moral justification on the basis of what is in the interests of the greater good is accepted, the alternatives facing the firm must be isolated. These are, in effect:

a. putting into effect a strategy for withdrawal from South Africa;

b. continuing a strategy of involvement in South Africa.

6.6.1 Withdrawal

There is a fundamental misconception in any call for withdrawal from the South African economy.

"Nobody withdraws. You sell your holding. This may
be to South Africans. Withdrawal achieves nothing."

(Kay)

This, however, only considers one aspect of the question of withdrawal. In suggesting withdrawal on moral grounds it is necessary to answer three questions.

"I have to ask myself if withdrawal means that you sell to someone who is more of a pig than yourself. You also have to assess the chances of success and whether or not the people who are going to suffer are going to applaud. The difficulty is that you cannot ask them." (Kay)

Each of these questions is considered in turn. Clearly, given the misconception as regards the nature of withdrawal, such withdrawal is clearly self-defeating taking control of productive assets and the labour force out of, perhaps, more benevolent hands and placing them under the control of those who stand accused of repressive policies towards such workers.

"Withdrawal ..... gives the South Africans what is rightfully theirs." (Ce-B)

Such withdrawal with its implications of isolation may be thought of as leading South Africa into a situation where there is a complete loss of support from overseas. However, several interviewees felt that while there might be a number of dangers from the South African point of view most South African purchasers had, in the past, been able to negotiate a number of agreements with overseas firms, particularly in the area of technical assistance. However, there may be
certain longer term effects to be considered. These include the increased cost of technology transfer and the willingness of firms to provide this without competitive pressure.

Perhaps of greater significance is the political isolation such withdrawal would imply. A number of Western governments, while criticising South Africa's internal policies are nevertheless prepared to support business activities there. This has become even more apparent in the present recession and estimates that a trade boycott alone would increase Britain's unemployment by 75,000, Germany's by 80,000, and that of the EEC as a whole by 250,000, put this argument into focus, given the already record unemployment levels in the United Kingdom alone.

(Spandau, A., 1979: p.9.)

"Politically it is not good as continued involvement is important in getting continued British government support. There is far less pressure if we sell to South Africa. The Conservatives, for example, are making it quite clear that they won't go along with a boycott, although they are saying it quietly."

(Ce-B)

Finally, the wishes of those who will bear the consequences of any action must be considered. The immediate consequence of a withdrawal of investment will be unemployment. Arndt Spandau, at a conference organised by Hugh Kay and cited in the interviews, estimated the relative shares in an increase in South African unemployment following a hypothetical 50% foreign investment boycott using 1976 data as follows:

(Spandau, A., 1979: Op.Cit.)
TABLE 6.3 EMPLOYMENT EFFECTS OF AN INVESTMENT BOYCOTT

| Increase in White Unemployment | 27,344 workers |
| Increase in Coloured Unemployment | 9,820 workers |
| Increase in Asian Unemployment  | 1,958 workers  |
| Increase in Black Unemployment  | 51,789 workers |
| Total Increase in Unemployment  | 90,911 workers |

It is not proposed to examine Spandau's method. However, it may be accepted that the Black worker will bear the brunt of any investment boycott and of any associated withdrawal of investment. On a number of occasions it was emphasised by Hugh Kay that in considering any calls for boycotts or withdrawal it is essential to consider the situations of individual workers and their ability to provide even the basic necessities in such a situation. South Africa provides no welfare. Unemployment implies three options:— starvation, crime, falling back on the support of the family or the tribe (both doubtful sources of support for those in urban areas).

Thus, it is not surprising that:

"During a meeting in Soweto, Buthelezi asked what the people thought about European investment. The general trend was that they needed the job."

(Kay)

Particularly as:

"In Bophuthatswana I visited the Peugeot bicycle factory. If Peugeot pulled out there would not be anybody to take the plant over and 1,100 people would be without work or food." (Kay)
This leads to the point raised in preceding paragraphs that in terms of the calls for the withdrawal of foreign investment the nationalist movements in exile may not represent the will of the people.

In considering the three questions raised therefore, calls for the withdrawal of foreign direct investment may not be as justifiable as first appears. The second alternative therefore is a continued presence in South Africa.

6.6.2 Continued Involvement

It is within the context of continued involvement that the role of the multinational corporation in South Africa in terms of its moral obligations becomes clear. It is also the area in which there is the greatest conflict between those urging business to adopt a positive role in political change and managers who see such action as inimical to their activities and who, together with the researcher, see the political benefits as flowing from their economic involvement in a country.

While the constraints placed on the development of South Africa's Black population have been severely criticised from abroad, there is also a need for certain pressures to be brought about by involvement in the country itself.

"The most sensible course for anybody with a stake in South Africa to follow is to work from the inside with what is available to pressure and persuade. I believe in the liberal philosophy. There are two courses open. The one above and that of the prophet to stand out and denounce the wickedness of kings. You need both. There has been a lot of the prophetic
from outside but you need more. You need somebody to work from the inside." (Kay)

These approaches may be combined to produce both the changes listed as developmental prerequisites as well as the ethical justification of their presence to individual firms and their managements. Co-A demonstrates the point. A number of church groups met with its chief executive and the interviewee, who found them to be "very sincere well informed people". As a result Co-A became more conscious of the wage levels in South Africa and became the first British firm to do so. Following this internal targets were established and were achieved. However, an interesting point emerges here, as it is necessary to utilise local management in achieving such goals.

"We established targets which we reached in our own time limits. In fact we could not have done this without our South African management. In reality you are faced by a problem. You cannot instruct your managers to do something because you, in effect, take away their profit responsibility. Two points emerge from what I am saying. Firstly, change tended to be instigated from outside. Secondly, such change would not have been possible without the support of the South African management." (Od-A)

While the questions of profit responsibility will be discussed in ensuing paragraphs, it is suggested that outside pressure together with cooperation by the local management team may produce desirable change and the roles of prophet and citizen become mutually supportive. However, there is often conflict where firms are called upon to adopt
a positive political role. It is in this that the differences in per-
spектив between prophets and managers become most apparent.

"I see the duty of the businessman in South Africa
as being to encourage liberal politicians and to
help fight apartheid. This is possible given
the bigger opposition to Parliament." (Kay)

While this may apply to South African business:

"A number of us see it as a duty to be political
in our spare time."

"In South Africa Co-E is a citizen and so we
speak out. We see a need for ourselves to
contribute to the political life of the country."
(Ed-E)

Such an approach was totally rejected by all interviewees when questioned about their activities abroad. The approach postulated is more subtle.

"Some firms are very pragmatic in realising the
need for collaboration. There are some companies
with a well developed system of participation for
Black workers." (Kay)

The question may be set in terms of motive. However, if one is striving for the greater good in terms of the initial proposition this becomes largely irrelevant.

"I have been very outspoken on this point (with-
drawal of foreign investment). We feel that
anyone who advocates this does not have South Africa's interests at heart. At present companies with South African interests are falling over each other to improve conditions. Some might say that this is for other reasons. This is not important as long as the result is the same." (Ed-E)

Rio Tinto Zinc, a company that has been subjected to considerable criticism concerning the nature of its operations in South Africa, has attempted to improve its record.

"Chloride has an extraordinarily fine record on human rights. RTZ as a penitent has developed a better approach. RTZ in Namibia has set up a multinational approach. It is a very special set up. There are mixed villages with white and coloured residents. They have set up nurseries and so on. One can say that these companies are trying to justify themselves in the face of foreign criticism, but this is still better than not doing so." (Kay)

It is, therefore, possible to argue that:

"..... It is possible to do good and still make a profit although some say that it is immoral to draw a profit from something that is immoral." (Kay)

Firms operating in South Africa are extremely sensitive as to their reputation. In the past a number of firms have faced public disgrace
as a sanction on poor social performance in South Africa. It was surprising to find how sensitive firms are in this regard with all correspondence relating to their Southern African operations being routed through the office of a senior executive. Once again, however, it may be argued that the motive is irrelevant as long as the effect is acceptable.

From the preceding paragraphs it may be concluded that foreign corporate involvement in the South African economy is ethically justifiable if it is accepted that, firstly, it is justifiable to seek the greater rather than the lesser good, secondly, that it is possible to do good and profit at the same time and, finally, that even if firms have other motives, if the effects of their actions bring about positive development they should nevertheless be encouraged. Clearly, such an approach is highly controversial.

The decisions facing each firm and their ethical foundations are illustrated in Figure 6.2 which considers, in terms of the argument presented above, the ethical justification for continued investment or withdrawal. Figure 6.3, however, illustrates the implications of withdrawal or continued involvement from the points of view of those supporting disinvestment and an investment boycott and those urging greater involvement in the South African economy.

The preceding paragraphs examine the perceptions of the African and South African markets and the ethical justification for operating in a system which those interviewed considered politically unacceptable. From this it has been possible to determine a role for the multinational corporation based on the politicisation of its mere presence in South Africa and the ethical dilemma facing its management. It is now
FIGURE 6.2 MORALLY BASED DECISIONS AS TO CONTINUED INVOLVEMENT IN SOUTH AFRICA

Moral condemnation of South Africa's internal policies

Ethical decision as to how to achieve greater good

Sanction not forthcoming

Continue/ Reinvest
Adoption of morally acceptable principles of management
Support of positive change through participation

Unacceptable to draw profit from an immoral system
Decision to withdraw
Will of people affected (i.e. Black workers)

Support of positive change through participation

Success in applying pressure and isolating White power

Stay out

Unsuccessful

Stay out

Reinvest
Adoption of morally acceptable principles of management
Support of positive change through participation

Withdrawal desired

Possible to draw profit and do good
Decision to continue involvement
Will of people affected

Continued investment
Adoption of morally acceptable principles of management
Support of positive change through participation
FIGURE 6.3 THE IMPLICATIONS OF CONTINUING OR TERMINATING INVOLVEMENT IN THE SOUTH AFRICAN ECONOMY

- High proportion of Black job losses
- Poverty starvation
- Increased political activity
- Political instability
- Civil conflict
- Black majority rule
- Centralised economy through breakdown of democratic or one party

Withdrawal
Economic instability

- White job losses
- White isolation and insecurity
- Declining industrial and technical base for military/police

Purchase by South Africans
Ongoing support agreements
Continued ideological implementation
Continued industrial/military strength
Strengthening of present system
Political continuity

Firms operating in South Africa

Adoption of positive political role
Support for liberal politicians

- Continued involvement
- Pressure on parent companies
- Application of morally acceptable principles of management
- Operation of integration strategy

Industrial representation
Breakdown of workplace segregation
White-Black wage parity
Promotion on ability
e etc.

Wider demonstration effects
Political evolution hastened by economic pressure
Multinational society - mixed economy
possible to examine the strategies of the firms selected and in terms of these strategies assess the contribution of each to economic development as defined.

6.7 INTERVIEWEE IDENTIFIED STRATEGIC DETERMINANTS

6.7.1 Introduction

The literature on multinational strategy is increasingly pointing to the fact that firms rarely practice the integrated or structured approach to strategic planning and management espoused by consultants and academics in the seventies. Indeed a number of firms may reject such an approach as irrelevant to their activities. In one interview, for example, it was stated:

"The only common thread in Co-A's activities is electrical products. It is not a business therefore it cannot have strategic planning. Each business is taken on its own particularly given the high diversity of products - for example - from military missile systems to reactors or vacuum switches for the mines. Co-A is highly decentralised. All companies are independently managed. Co-A is just a financial controller." (Od-A)

This, however, tends to reflect a definitional problem and, in many cases, a lack of understanding of what constitutes a strategic approach to both the local and international environment in which the firm operates. Despite Co-A's high degree of technological diversification which has led to a policy of decentralisation, it nevertheless operates strategically on a global scale through its centralised control over
the budgeting processes of its constituent companies, its investment strategy, its undeclared policy of centralising all technical innovations made by foreign subsidiaries, its personnel policies and its strong international coordinating role. In addition, in any merger or joint venture with firms abroad, Co-A insists on the right to appoint the senior financial director/manager.

Thus, while each of the 150 components of Co-A may exercise considerable autonomy as regards short- to medium-term operations, there is nevertheless a centrally determined group strategy in terms of finance, investment, technology, budgeting and senior personnel.

While it is acceptable, therefore, to argue that Co-A is not one business but a number of businesses, it is not so to argue that it cannot thus develop a strategic approach to its activities.

The ensuing paragraphs, therefore, are based upon interviews in which the researcher attempted to determine what issues the interviewees themselves perceived to be important in their international and, more specifically, their South African operations. The discussion takes place under nine headings, each of which is designed to encompass a range of related issues raised by each interviewee over the period of research into each firm. From this a profile is developed which allows the development of a strategic taxonomy of the firms discussed and the basis of an analysis of the strategic-developmental interaction.

6.7.2 Entry into South Africa

In the cases of the firms interviewed, the locational decision was in most instances based upon a search, the parameters of which were largely determined by an empathy resulting from a knowledge, however
limited, of particular geographical areas which have at various times in their history been subject to British influence.

"South Africa had the advantage of being an ex-British part of the pink coloured map as did other countries in which we invested. In addition it was a sound economy and had the English language." (Md-C)

The entry strategies of particular firms may, however, differ radically. Co-C in South Africa, for example, followed the text book route of agency, licensing and, finally, manufacturing, facing the problems traditionally associated with each stage of this process. Co-B and Co-D established themselves directly, Co-D to protect its markets, while Co-A entered South Africa in the first decade of this century and acquired its holdings over time particularly following a merger with two other major members of the industry. Co-E, however, utilised a cash surplus generated as a result of new mines coming into production to, firstly, move abroad and, secondly, to diversify into industry.

Despite the widely differing methods of entry into the South African market, certain similarities in the strategic approach adopted emerge:

(i) **Product advantage**

Each of the one-product firms, Co-B, Co-C and Co-D, argued that when moving overseas it was desirable to have a "bespoke" product which carried significant advantages given potential local competition with the advantages generated by a detailed knowledge and understanding of the market. This advantage was also needed to overcome unforeseen disadvantages and take the firm through an initial learning curve.
"Our philosophy was that you needed a bespoke product which was better than that available locally. As one industry declined Co-D looked at others. For example, in miners lighting we developed a complete system. This required a huge marketing effort. However, having set it up, it was very difficult for anyone else to compete. The market was protected by patents and by service networks as well as good contacts in the mining industry." (Ch-D)

"Our most important problem was that of establishing a brand name in South Africa." (Md-C)

Associated with this is the question of unfounded optimism when moving into new markets.

(ii) Optimism

It was suggested that a lack of fundamental research into new markets often led firms to consider foreign investment projects with an unfounded degree of optimism. Co-C, for example, found itself beset by major problems as its entry progressed. Firstly, despite market acceptance, retailers required assurances that Co-C was committed to the South African market. Secondly, the market was more competitive than anticipated and new markets had to be found. A niche was established in the quality end of the women's market. Despite its initial knowledge of the market costs of entry were far higher than expected resulting in financial difficulties and the raising of R4m in loans. This, however, was paid back within two years as Co-C moved successfully into the new market.
Such problems may be overcome by means of the utilisation of local promoters or what one interviewee appropriately termed "the wise owl".

(iii) Promoters

Co-B as well as Co-D employed indigenous senior management and a local chairman or promoter to advise the home country. It is interesting to examine their respective views on the roles of such promoters.

"There were cultural differences, differences in the ways of doing things and in the market. We tried to find bridges and in the control of the company we looked for a number of things:

Indigenous management:

We always went for a 'wise owl'
- a person we had a good personal relationship with;
- he must put us in the picture;
- he must give us advice on local affairs;
- he must have good contacts;
- his position would be chairman.

We really used the board which comprised:
- mainly nationals;
- holding company seats which were really used." (Ch-D)

"We always select non-executive directors who are not political but who are well connected. Therefore, if you want to go into any government department they are instrumental." (Ce-B)

Co-A, following a similar approach to that of Co-B, has also appointed well connected non-executive directors to its board to provide access
into government and state-managed enterprise. In countries where small groups have established political continuity and decision making is subject to political influence such appointees may be of considerable assistance gaining acceptance for the firm. However, this may also lead to difficulties. The researcher was made aware of a situation where two firms competing for a major project were utilising the same person to promote their interests. Such instances may arise where countries are governed by small political elites or where, as in South Africa, leading business management forms a small closely knit community.

Despite, therefore, significant differences in the entry strategies adopted by firms there are important similarities in strategic approach which result in the involvement of local management and advisors to overcome common problems such as those of acceptance, cultural differences, learning, etc. However, the locational pattern of firms is determined by the parameters of their search which are established by knowledge based upon historical and present spheres of political and cultural influence. In addition the nature of the market as determined by the level of economic development acts as a fundamental determinant of the type of product introduced. It was argued that reciprocal effects exist between the nature of the entry strategy adopted, the nature of the product and the level of economic development of the country concerned. Certain products are more suited to particular levels of development and serve to determine the locational decision in conjunction with the geographical parameters outlined in the preceding paragraphs.

"Co-B went into South Africa in 1952. This was a natural progression. Batteries are easy to make
in most countries and are a natural for developing countries." (Ce-B)

This argument is developed further when the organisational centralisation of technology and incremental technology transfer are discussed in Section 6.7.5 below.

6.7.3 Structure and Ownership Strategy

Associated with the entry strategy adopted are the decisions relating to the anticipated structure and ownership.

The structure and ownership strategies reflected by the firms interviewed suggest that they are a function of management perceptions of political wishes and the level of economic development in addition to such conventional variables as product, technology, reporting systems, etc. In this respect it is particularly useful to examine the experiences of a multiproduct high technology organisation such as Co-A and a single product intermediate technology firm such as Co-B.

"Structure will vary according to the actual nature of the operation and its size. You cannot have one uniform pattern and apply it everywhere." (Od-A)

Despite such variations in structure there remain within Co-A certain basic reporting requirements and individual activities are grouped in such a way that their performance may be readily monitored. This reflects the management philosophy upon which Co-A's success is substantially based. While it is beyond the scope of this dissertation to examine the relationship between structure and management philosophy it would be interesting to relate this to Co-A's overseas strategy. However, the following quote must serve the purpose.
"Co-A would not have happened without its chief executive and his immediate henchmen. Then it happened because of the way in which they set out to run the business and the structure is a consequence of that. The two things are part and parcel of the same thing. The man is a philosophy." (Od-A)

Despite there being no formal pattern other than that based upon reporting requirements and performance monitoring activities tend to be grouped around products which then become the focal point of the particular business. In effect, therefore, this structuring is technologically determined.

However, this structuring may also be determined by market size and level of economic development. Certain units, for example those in Black Africa, tend to be managed as simple multiproduct units, as the nature of the market does not permit detailed decentralisation.

By contrast Co-B's international operations are organised on a geographical basis, given its predominantly single product nature. Nevertheless, in South Africa it retains separate marketing functions for its battery and miners' lighting operations based on its constituent firms - Co-B and Co-D.

Both Co-A and Co-B have merged with South African partners although for different reasons. The nature of these mergers reflects the influence of the level of industrial development on structure and its effectiveness.

In both cases each sought an effective industrial partner. However,
before commenting on this it is necessary to examine their respective reasons for desiring such mergers.

Co-A based its reasoning predominantly on its perception of the political milieu.

"We did this because of the climate of opinion. We were a guest company and therefore much more sensitive. We knew it was the wish of the establishment that we should dilute." (Od-A)

It had been informed by means of the method outlined in the preceding paragraphs that it would be in their interests to dilute their holding by means of local participation in the equity of its South African operation. Reasons for South African insistence on this dilution are difficult to determine. It has been suggested that this was for strategic reasons given Co-A's involvement in the supply of equipment for a range of activities from defence to the generation of electricity.

It is at this point, however, that the nature of the partner selected reflects the influence that high levels of industrial development may have on the structure of overseas operations. The decision was taken to combine with an organisation which would not simply provide a cosmetic facade but which would make a positive contribution to Co-A's operations. As a result Co-A South Africa is now held in a 50:50 partnership with Barlow Rand, a major South African industrial group. This decision was based on the fact that it was felt that Barlow Rand had demonstrated:

- that its management's attitudes to decentralised profit responsibility and reporting methods were similar to those of Co-A;
that it could promote Co-A's interests through its activities as a supplier to the South African government, thus acting as an effective means of market penetration;

- that its management had an approach which in conjunction with its expertise was compatible with that of Co-A.

Co-B, by contrast, formed a partnership with Haggie although, for a brief period, a merger with Barlows was seriously considered. The reasons behind this lie not so much in South African economic nationalism as political perceptions as the failure of Co-B in the United Kingdom and the United States as a result of which the Group required an inflow of cash. Co-B was faced by the choice of forming a partnership with Barlows or Haggie of which Anglo American and General Mining held 37.5% each. Once again similar reasoning to that of Co-A prevailed. Like Barlows, Haggie were industrialists sharing compatible management attitudes and desiring a partnership. However, the decision was based on the fact that Anglo American, following its policy of industrial diversification, wished to enter into an agreement with the Carlton Group to manufacture batteries. This direct threat to Co-B's market was overcome by forming an agreement with Haggie whereby Haggie held 49.9% of Co-B in South Africa while Co-B held 50.1% in exchange for 30% of Haggie. Co-B's position was further secured by the fact that

"Anglo became indirect shareholders and thus unless there was a good reason the mines would only purchase our product." (Ce-B)

Thus, each firm sought an effective partnership in which there would be a direct contribution to the South African operation in terms of management expertise, market access, and active participation. While

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the benefits of such an arrangement are clear to both sides they remain a function of the level of South African industrial development

Co-E, in conclusion, demonstrates the influence of corporate ethos as structure through its activities as a mining finance house diversifying into industry:

"We have never aimed for a consistency of structure but rather a broad understanding of strategic goals."

(Ed-E)

6.7.4 Budgeting Procedures and International Financial Control

The budgeting procedures adopted by the interviewees demonstrated a remarkable consistency of approach. This may be attributed in part to certain national characteristics which, as argued in Chapter Four, suggest that it is possible to discern by the nature of the response to potential deviations from the budget the home country of the firm concerned. Thus, in terms of the financial controls and budgetary procedures adopted, financial management philosophy may be regarded as a function of national origin.

In each case, interviewees retained control over their South African operation through control over budgets, the technology utilised and the appointment of senior management. Thus, local management is given the responsibility of developing its budgets within preset strategic parameters which although not formally determined are informally accepted. These are then presented to the home country where they are challenged.
"The budget is developed in South Africa and challenged in the United Kingdom. The South African board must feel that the plan is right. It is debated and challenged over here. However, providing it falls within our overall strategy there is no problem. Teams then go to South Africa and meet the South Africans to challenge them. It is a team challenge and a team commitment." (Ce-B)

Co-B's insistence on commitment to budgeted targets is reflected by Co-A. While deviations may be accepted these must be fully justified and relate to new product investment rather than unforeseen outflows of capital. However, such deviations are in general unacceptable, the argument put forward being that:

"They produce a complete budget which is discussed and approved. Then it is over to South Africa. The companies have to set their own targets and there is no comeback. They cannot say that Co-A has set unrealistic goals. The South African management must then carry out the task." (Od-A)

This approach to budgeting may have important effects on the role of the enterprise in development through its social performance. Where, for example, directives relating to the application of codes of conduct as social responsibility are issued from the centre the effect is to remove a degree of profit responsibility from local management. Thus, certain adjustments in central management procedures for the monitoring of financial performance may be necessary. While the firms interviewed were aware of this problem it did not appear that
they had developed any approach to deal with it effectively. The importance of this may be seen by the emphasis on social responsibility and, in the case of merger partners, on the compatibility of management approach to employment practices.

Co-C and Co-D followed an annual budgeting cycle although Co-C nevertheless required its management to submit monthly reports in outline by telex and in considerable detail by post.

However, as may be seen, in each instance the nature of the budgetary processes were remarkably similar despite fundamental differences in management ethos. Co-A, reflecting a highly decentralised structure subject to performance monitoring in adherence to the management philosophy of its Chief Executive, adhered to procedures which could equally be applied to Co-B, where greater emphasis is placed on the role of the individual in the organisation and, as will be demonstrated, social responsibility. These procedures represent one of three methods by which effective control of the enterprise may be exercised despite policies of decentralisation. Two order methods which will be discussed below are operated through the centralised control of technology and the appointment of senior management.

6.7.5 Technology, Production, and Research and Development

The nature of the technology inherent in the product mix of the organisation has three important developmental as well as strategic implications in terms of product flow, technology diffusion and income distribution. (Thomas, R.E., 1983: pp.163, 204.)

(i) Product Flow

The nature of the technology employed determines the direction of the
product flow. To determine the reasons for this it is necessary to examine the centralisation of the technology within the firm.

Within each of the organisations interviewed product technology is controlled from the centre. This control differs somewhat in Co-A and will be discussed separately. In no case did fundamental research take place in South Africa, and other than minor agreed adaptations for the local market, no deviations were allowed.

"As regards technology we exercised technological dictatorship. There was no unagreed deviation although there were some agreed deviations, because of the nature of the market." (Ch-D)

Similarly, Co-B allowed product innovation within a territory where that territory will form the major market.

"If we have a major project such as miners' lamps we agree that it (product innovation) should be done in the territory which is going to get most benefit." (Co-B)

Reasons for such centralisation may be attributed to a number of factors, for example:

Product performance

"Batteries are temperamental. We therefore needed a central body to decide on technical matters."

(Ch-D)
Market size

"The South African Company is not large enough to finance R & D." (Ce-B)

Marketing

"The technical side was strictly controlled by head office. On the design side people were sent back to England twice a year for short periods to see the technology at home as well as to France, Italy and Germany." (Md-C)

Co-A, despite allowing management autonomy within the parameters of established reporting and budgeting procedures, nevertheless retains a technical director with two functions - that of responsibility for fundamental research which is carried on within Co-A's central laboratories and that of technical audit.

"The technical director is responsible for finding out what companies are doing and then satisfying the chief executive that the operating companies are reacting to opportunities becoming available." (Od-A)

Within the diversified structure of Co-A, however, there remains a flow of technology from the centre to operating companies around the world. This process is similar to those of the remaining interviewees although where high value high technology business is conducted local subsidiaries may function as little more than agents. This applies particularly in the case of, for example, the sale of large turbine
generator sets and transformers

This centralised control over technology determines the direction of the product flow.

"South Africa supplies very little to us. By and large they are already making what we make for ourselves. Most of what they make is either by licence or some derived knowledge from the U.K." (Od-A)

"The technology we use determines the product flow. Therefore, the South African company sells comparatively little to Europe although the miners cap lamp is an exception." (Ce-B)

The firms interviewed, therefore, imported little from South Africa. Direct investment was aimed at the establishment of plant to exploit the local or regional markets. Further, study to determine the nature of this relationship which is based on a wider sample would be of considerable importance. The preceding paragraphs suggest only a relationship between level of development, the use of imported technology and the direction of product flow which has implications for the effect of foreign direct investment on the long-term balance of payments and, in the case of less developed countries, suggests that imported medium to high technology may result in a static equilibrium resulting from the inflow of technology and the manufacture to meet purely regional or local demand.

An important element of this product flow is the manner in which technology diffusion takes place within the firm.
(ii) Technology diffusion

Despite the centralisation of technology the diffusion of new technology through the international operations of the firm is not subject to any predetermined process. Rather, it is the perceived applications by the local firm that determine whether such transfer takes place.

"Nothing is diffused centrally. If Co-A Switches have developments then the communication they have all the time with the overseas companies results in a flow of knowledge. The U.K. will not give technology away. The overseas company will have to buy it if, and only if, they want it." (Od-A)

Within Co-B there is a greater degree of control. However, this is not subject to any plan.

"If technical innovations which are in the nature of cost reductions or product effectiveness arise, they are made available fairly rapidly but then it is decided by every company, either themselves or with the help of a Chairman of Operations over here, which development makes sense and the time scale for applying it." (Ce-B)

However, to reduce risk, where such innovations become available but require operational testing, operating companies which have the greatest interest in the development in conjunction with the highest potential return are permitted to apply it.

The effects of the mergers with Haggie and Barlows did not significantly
affect this diffusion process, Co-B going so far as to open its research facilities to regular inspection by Haggie. The philosophy adopted is best represented by the following statement:

"We have nothing to hide and should not do so from those who are paying for it." (Ce-B)

The South African government has let it be known that it is prepared to accept such technology aid agreements. Indeed such agreements may ensure the survival of South African firms should there be a withdrawal of the parent companies from South Africa. This is in contrast to suspicions previously held that such technology aid agreements could be used, firstly, to exploit South African interests by charging excessive fees for such transfers and, secondly, as a means of overcoming exchange control regulations.

"South Africa, like Australia, has taken a broad view that it is not against technical aid agreements providing companies get value for money." (Ce-B)

From the preceding paragraphs it may be seen that new technical developments are not thrust upon overseas operations. Rather, constituent firms are permitted to determine what they perceive to be applicable and once such technical innovations are applied they are subject to central control.

While the technical aspect determines the production process there are marginal differences which may have significant political effects.

(iii) Production methods

South Africa's highly dualistic economic structure leads to a sensitivity
to the relative costs of labour and capital. This may be utilised in periods of rapid economic growth where firms, such as those interviewed, retain the same pressures on productivity as in other areas of operation, to increase Black wage levels and pressure for the development of a skilled Black labour force with the consequent political effects this implies.

"The major problem is the shortage of skilled labour. This is the main gripe. It pushes management into the use of more capital. However, it also pushes emancipation. We now have permission from the White unions to train Black apprentices and since last September we have been really pushing." (Od-A)

Thus, by determining the direction of the product flow, the nature of the diffusion process and the demand for skills in the South African context the technology inherent in the product mix has fundamental implications which go beyond the relatively straightforward concept of technology transfer.

6.7.6 Political Risk

The political risks faced by the firms operating in South Africa may be classified under three headings:

- Risks to operations in third countries opposed to South Africa's internal policies;
- Risk generated by changes in relations between countries in Southern Africa;
- Internal political risk.
The discussion relating to managerial perceptions of the African and Southern African environment has already indicated the lack of formal methods of political risk assessment by firms operating in South Africa. Such assessment as is undertaken is informal, tending to rely on the opinion of those with experience of conditions in particular geographical areas. The accuracy of such assessments is often compromised by those with such knowledge being prejudiced by the stakes they may hold in such countries. This applies particularly to local board members and consultants.

The vague nature of such assessments is demonstrated by the following statement:

"Going back to company philosophy and the main board, no one thinks that South Africa is going to go under in the next few years. It is longer term. They don't see it as a place where anything dramatic is going to happen in the short term. However, no one is capable of looking into crystal balls. Anything might happen." (Md-C)

It is within this context, therefore, that it is necessary to examine corporate perceptions of political risk in relation to South Africa.

(i) Risk to operations in third countries opposed to South Africa's internal policies

This does not appear to be widespread and experience of such political leverage differs from firm to firm. In the case of Co-A, for example:

"There has been some sabre rattling in Nigeria although we haven't been singled out. Nigeria
has tried to impose its own form of boycott against those doing business with South Africa. However, it is difficult to sustain because all the major firms in our industry are doing business with South Africa." (Od-A)

While the heavy electrical industry may have been selected because of its importance to South African economic development, it has, as will be demonstrated in the next chapter, considerable power to overcome such political threats through the participation of all major firms in the industry in the International Electrical Agency - an extremely effective and cohesive secret cartel.

Co-B, Co-C and Co-D faced little or no criticism.

"We have had no comments from other countries about our operations in South Africa. The crunch might have come in Nigeria, but our factory is nearly complete now. There is no problem if you keep quiet. We put down our South African interest when we were negotiating. They never brought it up and we never said anything." (Ce-B)

This reflects Co-B policy which is reinforced by South African legislation making it an offence for local subsidiaries to provide information which would compromise South African economic interests, to foreign holding companies.

"Our policy on our overseas companies is to retain as low a profile as is sensible. We
are outsiders and it is not for us to get involved." (Ce-B)

Similarly, despite South African ownership and its widespread operations throughout the world, Co-E faces little criticism. However, the problem of reaction to South African policies on a purely personal level was raised. This, in the experience of the researcher, applies only to initial contacts on a personal level where questions as to South Africa's internal policies may be raised.

"Criticism is not a severe problem when operating abroad. The one area of difficulty lies in dealing with other nationalities. People may be embarrassed by the South African political situation." (Ed-E)

Co-E illustrates further how South African multinationals may be drawn into regional political negotiations. This leads to the second element of political risk that may be discerned by the responses of interviewees - that of:

(ii) Risk generated by changes in relations between countries in Southern Africa

As demonstrated in the preceding paragraphs, Co-E's management philosophy regarding social responsibility permitted direct participation by its executives in South African party politics. However, in certain cases this approach to political participation has been extended to involvement in regional affairs through its interests in Zambia, Zimbabwe, Botswana and South Africa. Such involvement is atypical of the approach of European and South African multinationals to international affairs.
In the case of Co-E such involvement is facilitated by size, the closed and cohesive structure of the industrial and political elites in Southern Africa, and the participation by certain executives in the South African parliament.

However, despite persistent rumours to the contrary, Co-E managers did not mediate in the meetings between Prime Minister Vorster and President Kaunda. Nevertheless, such executives as the interviewee did carry messages between the two governments and one senior manager received a CBE for his negotiations between Prime Minister Smith and President Kaunda, and also played an important part in the Lancaster House agreement.

Such involvement is, as stated above, unique even in terms of South African organisations active within the region.

The firms interviewed adopted extremely reactive strategies to events affecting relations between states in the region. An exception to this was Co-B, which demonstrated how firms may adjust their geographic structure to accommodate such changes in political relationships and reduce the potential effects of exposure to political risk.

In anticipation of problems in political relations within the region Co-B, at its Chief Executive's instigation, restructured its operations to reduce the political risk to its operations generated by the election of Prime Minister Mugabe. This resulted in the operation in Malawi being separated from those in Zimbabwe and Zambia. This was necessary, it was felt, because of possible economic retaliation by Zimbabwe against Malawi following its refusal throughout the guerilla campaign to offer any assistance or bases to the liberation movements.
while at the same time trading with the Smith regime in defiance of sanctions.

Secondly, it was felt that central African dependence on the South African operation for rubber containers could jeopardise Co-B's operations if there was conflict or, even simply, border closures. The Zimbabwean and Zambian operations were therefore asked to submit their cases for the location of the plant and on the basis of these it was located in Harare.

This also illustrates how by managing political risk firms may gain certain "good citizenship" credits while operating in Africa.

"It would be hard for us if the border were closed but it would not bring the operation to a halt. This also shows that we save foreign exchange and that we are good citizens." (Ce-B)

The third form of political risk identified is that generated internally within nations.

(iii) Internal political risk

Political risk generated within nations may take many forms. Thus, the industrial relations environment in South Africa is regarded by many firms as containing all the elements of potential internal political risk following the emergence of politically active Black trade unions as outlined in preceding paragraphs.

However, within the South African context it is useful to note an additional aspect of political risk resulting from the fear of South Africans that given the nature of the political situation firms do not
regard their interests there as long term commitments. This leads to
difficulties in gaining acceptance and, at times of high political
tension, a degree of xenophobia, particularly where home countries are
critical of South African policy.

"There is the problem of whether your customers
believe you to be South African. People ask
you if you are just trying to make a bit of
money and then get out." (Md-C)

The firms interviewed did not, however, appear to be significantly
affected by such attitudes although Co-A did require British government
aid to overcome South African doubts about its ability to perform in
the face of political attitudes in Britain when tendering for a major
parastatal contract. However, discussion on the tendering for major
contracts is relegated to Volume II which examines other aspects of
political risk and the ability of firms to control their environment
through the operation of the International Electrical Agency.

Of immediate relevance, however, is the effect of the South African
industrial relations environment on the strategic approach of firms
operating in South Africa.

6.7.7 Industrial Relations and Codes of Conduct

The response to the industrial relations environment is not only deter-
mined by the strategic approach to political risk but also by the
management ethos of the firm concerned. This was strongly reflected
in the approach of each interviewee when questioned in detail. Co-B's
policy, for example, is to remain within the top 10 percent of good
employers in each country in which it operates in terms of wages,
pensions, working conditions, etc. To this extent it may be argued that its strategy reflects its attitude to social responsibility. However, where there is any government interface firms are extremely reluctant to be in the vanguard of any change that could be seen to challenge the established political structure. Thus, Co-B found itself with no cohesive strategic approach to the challenge by Black unions in Port Elizabeth, and was forced to react to a series of events beyond its control which, had Barlow Rand not been forced to follow a similar course, could have led to a direct conflict with the South African government.

Co-A and Co-C both reflect a similar lack of anticipation.

"You have to recognise that it exists and cope with it as best you can." (Od-A)

Comments reflected a degree of naivété as regards the politicisation of the work force that has already taken place which, as has been demonstrated, will have fundamental effects on the development of South Africa and the role of private enterprise in this.

"We welcome trade unions in South Africa so long as they don't lose sight of the reason for their existence. It's when they become political that problems arise." (Od-A)

At the same time as these interviews were conducted, Co-A was resisting recognition of a new unregistered union. In a later interview it was concluded that:

"The unregistered trade unions will gain in strength. It is one of the ambitions of the Blacks." (Od-A)
In developing acceptable employment practices, including the recognition of Black unions, codes of conduct were regarded as being useful. However, it did not appear to the researcher that there was any attempt to apply them. Each interviewee claimed to follow one of the codes of conduct - Co-E, SACCOLA; Co-A, EEC; Co-B, EEC. However, such acceptance merely served to reflect overall management ethos in relation to its responsibilities in South Africa.

"When you write something down it is helpful to concentrate the mind. It is not the code, it is the spirit of the code." (Ce-B)

Thus, while codes may be presented to firms they often serve to reinforce present policies based on management ethos relating to social performance. However, such codes, as has been argued, may serve to provide firms with targets behind which they may hide. Such codes also lose credibility with Black workers whose cooperation is not sought in this development and who are patronisingly informed that firms will in future be guarding their interests by applying such codes. The Sullivan and EEC codes may be readily criticised from this point of view.

6.7.8 Personnel Considerations

While in South Africa the researcher was aware of consistent criticism of the unsuitability of many of those appointed abroad to management positions in South Africa. Interviews suggested that firms did not adopt formal assessment procedures for managers they intended sending abroad until some crisis forced recognition of this problem. Thus, Co-A does not have any formal selection or briefing procedure, basing their decision as to an individual's suitability on his technical
competence, this approach being similar to that formerly adopted by Co-D. Co-C, however, following difficulties resulting from the appointment of a managing director with little or no empathy towards South Africa's problems, examined the problem of selection extremely carefully. (Such empathy does not imply an uncritical acceptance of South Africa's present problems but rather an understanding of the role of the firm in terms of the ethics of involvement as set out in Section 6.6.) Consideration was given to the role of the wife and family as well as the role of such appointments in the career path of the individual. The effect of this has been to improve both the professional quality of managers posted to South African operations as well as the quality of the social interaction which, as will be shown, plays an important role in the conduct of business in South Africa.

"Before we send people abroad we select them very carefully and brief them. Wives are very important. She must have some sort of empathy for the country she is going to. Some companies do this much more formally than others. Co-C did it very informally but you can be certain she was assessed particularly on the social side to see if she would be acceptable to the local nationals." (Md-C)

"Co-C brief the husband on South African social customs and ways of doing business." (Md-C)

Co-B, however, regards such appointments as being directly related to its success abroad, giving emphasis to the importance of the ability to readily recognise the underlying ethos of a country. The specifications for the job are consequently more formally determined than in the case of Co-C.
"For the post of manager or director overseas I wrote the profile. Firstly he must have managed a company while secondly he must have lived in a developing country for a number of years. He must have a feel for it. It is important to know what is the same and what is different, and develop a 'feel' for a country." (Ce-B)

The potential of the expatriate to do damage to the firm abroad was emphasised. However, where such an individual remains in a country for a period of time and develops an empathy for it he may not only act in the interests of his firm, but also assist in the development of relations between enterprise in that country and the home country, provide advice and expertise to local industry, etc. This has occurred in the case of certain German and Swiss firms.

An essential element of such an understanding is the recognition of different business styles as determined by the cultural parameters of the society.

6.7.9 Cultural Parameters and Business Style

While, as has been suggested, the South African style of business is perceived by interviewees to be mid-Atlantic the interviews reflected a lack of detailed knowledge. This lack of understanding by firms in part reflects the level of South African economic development with its consequent implications for high levels of management education and development permitting effective decentralisation from the United Kingdom in a number of decision areas.

While it may be argued that it is possible to adapt the style of
management, within the parameters of certain basic principles, to suit particular national situations, only one company appeared to have given this detailed consideration ascribing to it a great deal of the success of its international operations.

"This is the key to why Co-B has been so successful. There is one way in which you manage in the West. However, you must tailor this to each of the countries in which you operate. You start off by saying that this is the way to manage an enterprise but we will adapt if there is good reason to do so - not the other way around." (Ce-B)

The differences in the approaches to management and business may be examined under two headings although these are strongly interrelated:

- Management style;
- The social aspect.

(i) Management style

Two aspects of management style were discerned during the interviews. The first of management approach was described succinctly by one interviewee and echoed by a second.

"South African management is informal and adventurous, perhaps slap dash which is the other side of the same coin. They tend to concentrate on one or two things and forget about the detail. When the South African manager turns up abroad his subordinates see him as a bull in a china shop while he sees them as sheep." (Ed-E)
"The South African management style is harsh and it tends to frighten the English." (Ce-B)

The second element of this may be described as attitude. This was strongly emphasised during the discussions with Co-B when it was suggested that South African, Australian and United States' attitudes to profit and new opportunities were similar. While the question was framed in terms of the continuity of management strategy between the two South African chief executives, the answer is of interest.

"Both of us come from an environment where the making of profit and one's attitude to this is important. My predecessor could be American or Australian and I South African, but it is the attitude that is important. We come from an environment where one is more inclined to say why you are going to do something than why you cannot." (Ce-B)

The informal approach of South African management is based to a large extent on the social aspect and its importance to the conduct of business.

(ii) The social aspect

The informality of business in South Africa may be ascribed to three factors:

a. business operates at higher profit levels than in European countries;

b. the business community is smaller, as are the cities apart from Johannesburg;
c. the climate allows considerable social interaction.

However, South African management does often face criticism from home countries reflecting suspicion of the importance attached to this element of the conduct of business which is clearly open to abuse.

"My criticism is that there is a danger of people using the company's money for business that is not business. People are well paid and there is a low tax rate. There is a tendency to overdo it. I notice it and it worries me a little. In general the business is less formal as it is in America and that is not a bad thing." (Ce-B)

The importance attached to social interaction does reflect South African management philosophy as regards both inter- and intra-organisational interaction.

"Whoever the people are, it is essential to win their personal confidence. You do this by taking a genuine interest in them and spending time with them. This includes the much criticised business lunch, drinks, etc. If you are not prepared to do this you will lose them. You must be friendly to the extent you make people feel that you care about them." (Ed-E)

Such changes in emphasis in the conduct of business or managerial activities may, even in smaller firms, lead to conflict with overall policy.
"South Africa was very important. Therefore, we did things we would not do in other countries.
For example, in mining we organised golf matches for mine managers and executives. The Rand and Country Clubs were also important." (Ch-D)

6.8 CONCLUSIONS

This chapter has attempted, by means of a series of semi-structured interviews, to allow those interviewed to isolate the strategic determinants perceived to be of greatest significance to the strategic approach adopted by their organisations when operating in South Africa. This is illustrated in Table 6.4.

Table 6.5 relates these interviewee identified strategic determinants of strategy to the trichotomous strategic classification proposed in Chapter Five. In this table each of the strategic determinants is listed under three generic headings and related to the response it engendered in the organisation. In terms of the overall strategic response adopted by the firms interviewed it may be seen that a predominantly integrative approach was followed as regards the inherent technical and research and development requirements. Examination of each firm's response to other elements of strategy such as those directed at the management of political risk suggest that Co-B adopted a strategic approach which was predominantly one of national responsiveness. By contrast, Co-A, Co-C and Co-D, as demonstrated, adopted strategies of administrative coordination, while Co-E, operating in its home country, preferred to anticipate and adapt to situations based upon its detailed knowledge, understanding and political involvement in its environment. It is within this context that it is interesting to
note how each of the firms interviewed attempted to cope with the politicisation of the organisation by means of strategies tending to international integration, as was indicated by their highly reactive approaches to political parameters based on home country perceptions of the role of the firm as guest in the host country.

In terms of market characteristics, firms showed themselves to be far more adaptable to the characteristics of the host country with only Co-A adopting a consistently more integrative approach and other firms following more strategies of national responsiveness.

This classification will be made more explicit in the next chapter when each firm is classified in terms of its strategic approach. It is important, however, to emphasise that the strategic response of the firm in this classification relates specifically to its operation in South and Southern Africa.
### Table 6.4 Interviewee Identified Strategic Determinants

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<tr>
<th>STRATEGIC APPROACH</th>
<th>Co-A</th>
<th>Co-B</th>
<th>Co-C</th>
<th>Co-D</th>
<th>Co-E</th>
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<td><strong>I. ENTRY INTO SOUTH AFRICA</strong></td>
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<td>A. Geographic Spread</td>
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<td>B. Entry Method into South Africa</td>
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<td>Progressive involvement</td>
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<td>C. Reasons for Entry</td>
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<td>New market development</td>
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<td>E. Development of Local Knowledge</td>
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#### C. Merger Participation

- **By Governmenthortation**
  - U.K. cash shortage: N P N/A P N/A
  - Take-over of U.K. company: N N N/A P N/A
  - Sale by home company: N N N/A P N/A
  - Protection of markets: P P N/A N N/A
  - Market access: P P N/A N N/A

#### D. Predominant Partnership

- **Attributes Sought**
  - Compatibility of management philosophy: P P N/A N N/A
  - Active participation: P P N/A N N/A
  - Industrial organisation: P P N/A N N/A
  - Cash payment in U.K.: P N N/A P N/A

### III. BUDGETARY PROCEDURES

#### A. Budget

- **Developed in U.K.¹**
  - S.A.: P P P P N
  - Challenged in U.K.¹
    - S.A.: N N N N P

#### B. Budgetary Cycle

- **Annual**
  - Weekly reporting requirements: N/A N/A P N/A N/A
  - Monthly reporting requirements: N/A N/A P N/A N/A

#### C. Decentralised Profit Responsibility

- **P P P P P**

#### D. Deviations Permitted

- **Capital expenditure**
  - N N N N N
- **New product development**
  - N N P N P
- **Unforeseen non-capital outlays**
  - P P P P P

### IV. TECHNOLOGY, PRODUCTION AND R & D

#### A. Product Technology

- **High**
  - N N N N N
- **Medium**
  - N P N P N
- **Low**
  - N P N P N

#### B. Production Technology

- **High**
  - N N N N P
- **Medium**
  - N P P P N
- **Low**
  - N N N N N

#### C. Centralisation of

- **Technology**
  - P P P P P
- **Research and Development**
  - P N P P P

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**VIII. SOUTH AFRICAN BUSINESS STYLE**

| Positive attitude to profit    | P    | P    | P    | P    | P    |
| Ability in relation to         | P    | N    | P    | N/A  | P    |
| appointment                    | P    | P    | P    | P    | P    |
| Informal                       | N/A  | P    | P    | N    | P    |
| Adventurous                    | N/A  | N    | N/A  | N    | P    |
| Emphasis on role of individual | N/A  | N    | N/A  | N/A  | P    |
|Ignore detail                  | N/A  | P    | N    | N/A  | N    |
| "Harsh"                       | N/A  | P    | N    | N/A  | N    |

¹In the case of Anglo American Corporation read "Interests outside South Africa".

**Key:**

- P = positive
- N = negative
- N/A = not applicable/information not available
**TABLE 6.5 A STRATEGIC CLASSIFICATION**

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**I. POLITICAL RISK/MANAGEMENT ACCOUNTABILITY**

A. External to South African Operations

- Home/Third Country Criticism
- Home Government Support
- Regional:
  - Military Tension
  - Ideological Tension
  - Economic Dependency
  - Pressure for Withdrawal
- Ethical Parameters
- Comparative Risk Exposure

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B. Internal South African Political Risk

- High Levels of Societal Politicisation
- Politicisation of the Firm
- Government Decision Prediliction (Economic/Political)
- Societal Approbation of Socio-Political Change
- Existence of Political Alternatives
- Political Attitudes to Private Enterprise
- State Economic Intervention
- Policy Consistency
- Political Continuity
- Increasing Union Politicisation

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II. MARKET CHARACTERISTICS

A. Regional Relationships

- Exports to Africa
- Regional Economic Groupings
- Economic Dualism (Regional)

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B. The Government Interface

- State Economic Intervention
- Dependence on State Purchases
- Political/Economic Interaction

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C. National Characteristics

- Societal Attitudes to Private Enterprise
- Level of Economic Development
- South African Economic Dualism
- Cultural Parameters
- Degree of Competition

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D. Organisational Aspects

- Opportunities Perceived in LDC's
- Product Mix
- Relative Importance of the South African Operation to the Firm
- Mergers to Protect Markets and Secure Funds
- Mergers Resulting from Political Pressure

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III. TECHNOLOGY

- Inherent Product Technology
- Inherent Production Technology
- Perceived Technical Advantage
- Research and Development Requirements
- South African Skill Shortages
- Sensitivity of Production Techniques to Capital/Labour Substitution
- Technical Aid Agreements
- Merger Obligations

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APPENDIX 6.1

INTERVIEW METHOD

Because of the sensitivity of the topics under discussion, the initial interview with each interviewee was used by the researcher as a familiarisation exercise, the objectives of which were to establish a certain rapport upon which to base future discussions and define in more detail the parameters and goals of the proposed study.

To allow the interviewee to present his own ideas rather than comment on those of the researcher, thereby giving a false impression of what he perceived to be the relevant issues, interviews were conducted on a semi-structured basis. The researcher initiated the discussion with a plan of the interview containing a list of topics and relevant open ended questions. This allowed the interviewee to digress and present his own ideas. Nevertheless, at no time was the discussion allowed to degenerate into a talk about issues of interest but not of relevance. Each interview lasted for between one and two hours and, with three exceptions, took place in the office of the executive concerned.

As may be seen, this approach was extremely effective if judged by the amount of information generated within a short period of time. However, while these interviews were also successful in that those agreeing to assist with the study gave their full cooperation and provided the researcher with a sound overview of the strategic issues involved in foreign direct investment in South Africa and its political and economic implications, it became increasingly apparent that it would be necessary to focus on specific aspects of the operations of such corporations within the context of the analytical framework outlined above.
CHAPTER SEVEN

SUMMARY AND CONCLUSIONS

7.1 INTRODUCTION

The preceding chapters attempt to combine practical relevance with analytical and methodological clarity to provide an insight into the interrelationship between foreign direct investment, the strategic approach of the firm and the development of the host nation, which will be of interest to those conducting business operations in South Africa as well as to students of strategic planning and economic development. To achieve this two-fold objective a discursive approach was utilised to examine the literature while the empirical content was founded upon a series of semi-structured interviews with senior executives having considerable experience of the management of the Southern African element of their international operations and whose position in their respective organisations provided them with an overview of the firm which was not constrained by various structurally related perceptions.

The central argument was founded on the liberal approach relating to the economic and political elements of the development process focusing on the role of foreign direct investment by means of the strategic-developmental interaction. The discussion was limited to firms with a long-term commitment to the South African market and as such does not consider the developmental effects of the participation of overseas organisations in short to medium term projects such as, for example, power station construction or other infrastructural projects. Neither does it consider the role of such international service agencies as, for example, management and technical consultancies or banks.
However, for the sake of completeness, the discussion of Volume II contains a brief assessment of the roles of such organisations in the South African context.

The preceding chapters have thus focused on the overall philosophical approach of each organisation and the role of the firm in the developmental process was considered in terms of the modernisation ideals set out in Chapter Two. This introduced the political element into the discussion and widened the scope of the study, illustrating many significant gaps in the literature, suggesting a number of areas for further research. This applies particularly to the examination of the politicisation of the organisation in countries such as South Africa where fundamental decisions have yet to be made as to the future economic and political structure and where managers are faced by a number of issues of a casuist nature.

This chapter now discusses the realistic structure and the conclusions of this study as well as their wider implications. Finally, further areas for research are suggested.

### 7.2 THE ERISTIC STRUCTURE AND ILLATIONS

The argument of the preceding chapters is divided into four parts:

- The first is concerned with the relevance of contemporary orthodox economic analysis to the problems of the developing world.

- The second relates to the objectives of economic development drawing attention to the relationship between the economic and political elements of these by means of the liberal interpretation.
The argument is then focused onto the nature of development in South Africa and the role of foreign direct investment in this.

Finally, the empirical element examines the role of five multinationals in this development process by means of an investigation into the strategic approaches adopted by each and the interpretation by a policy influencing executive of the roles of such firms in South Africa.

The conclusions of the study are now discussed in terms of this four-fold breakdown.

7.2.1 The Relevance of Contemporary Orthodox Economic Analysis

The discussion shows that a number of criticisms may be levelled against the indiscriminate application of theoretical techniques of analysis developed in relation to the economies of the advanced nations and of greater relevance to what has been termed "the special case". However, while the basic tools of analysis must be retained as they form the foundation upon which any model of development must be based, any sound theory pertaining to the nature of development must take fully into account the characteristics of the country concerned. There must exist a full understanding of the economic, political, cultural and historical dimensions of a society before there can be an effective statement of the development problem.

Thus, constraints on the analysis of development engendered by questions as to the relevance of current theoretical approaches are serious and must be given serious consideration. Once this principle
is recognised it is possible to advance to a more successful attempt
to develop an approach which gives due recognition to the nature of
the development problem faced.

While there exists considerable controversy as to the relevance of
current theoretical approaches there is broad consensus as to the
objectives of development.

7.2.2 The Objectives of Development

Development, it has been argued, may be considered as a process of
improvement with respect to a set of values relating to the desired
conditions within a society. Thus, it is suggested that development
is a normative concept, its definition and measurement depending on
the analyst involved. However, while there are divergent opinions
as to the causes of development and the weights that should be attached
to specific goals, there is a broad consensus as to what these goals
are, particularly when, as was suggested, it is recognised that such
development is concerned with the achievement of the full potential
of the human personality.

The implication, however, is again that it is necessary to have a
sound knowledge of the conditions existing within the society under
examination - its socio-political and economic structure, the differ-
ing aspirations of its people, the constraints imposed by geography,
climate, etc., as well as its external economic and political rela-
tions. On the basis of these arguments the study focused on the
Republic of South Africa and adopted an eclectic approach to the role
of foreign direct investment in its development in terms of these
objectives.
These objectives were not purely economic. A substantial proportion were political in essence and within the context of South Africa it is suggested that changes in the economic parameters of the society will have substantial political effects.

7.2.3 The Development of South Africa

South Africa, by the combination of its history, its rapid economic growth and its geographical location, has the potential for high levels of economic achievement in conjunction with the potential for considerable conflict. This has both national and regional implications which serve to determine the nature of the strategic approaches adopted by international firms operating in the region.

The roots of this conflict lie in the history of South Africa and particularly in the two Anglo-Boer Wars which have had lasting effects on the political and economic structure. Predominantly as a result of Lord Kitchener's scorched earth policies creating an unskilled landless class with few prospects in cities controlled by foreign interests, the foundation was laid for an extreme form of nationalist response.

Throughout the period of this response political control in South Africa remained in the hands of the Afrikaner while economic control has been retained by English speaking South Africans. However, the nationalist philosophy has been conducive to economic growth in its acceptance and encouragement of free enterprise and the drive for effective Afrikaner economic participation in future development. This is illustrated by the fact that while it has been argued that in terms of Hymer's three level scheme for the analysis of corporate structure South Africa lies between levels II and III, it cannot be
denied that it has undergone phenomenal economic and industrial
growth in its own right since 1960. Instances of such development
were readily cited - the establishment of the first commercial coal
to oil plant, the Orange River Scheme, the industrialisation making
the Pretoria-Witwatersrand-Vereeniging Triangle the most productive
industrial area in Africa, the indigenous development of a successful
uranium enrichment process, etc.

In conjunction with this Black South Africans are demanding greater
participation in the political and economic development of the coun­
try. With increased economic growth these pressures have become
greater. This has resulted in numerous anomalies in the political
and economic life of the country which are well illustrated by, for example, the role of trade unions. In the face of restrictions on
political institutions in conjunction with the relative freedom
allowed by industrial relations legislation, unregistered trade unions
have emerged at the forefront of Black political comment.

The result of this interplay is a highly politicised society with the
appearance of considerable continuity but which is undergoing rapid,
potentially destabilising, economic and political change.

The results of this interaction between the economic and political
elements of development have created an ideological crisis for the
Government of South Africa which on the basis of its present philoso­
phical framework cannot contain the change taking place and is there­
fore finding itself in the position of making an increasing number of
reactive adjustments to the situation. At the same time there is
recognition of the fact that sustained growth at levels above 5% per
annum are needed to ensure continued white domination. This crisis
may be readily perceived in the survivalist approach that has been adopted.

Thus, as development has taken place so trends have tended to follow the conventional liberal approach as defined in Chapter Three. However, this has been based upon the inherent potential for conflict within the society resulting in a highly politicised environment. The difficulty in terms of political risk analysis lies in attempts to determine which of the forces discussed will gain predominance and those leading to destabilising conflict or those tending to utilise these inherent forces to achieve their goals on the basis of future economic development.

This has fundamental implications for the other countries of the region which are economically dependent on South Africa. On the basis of a rejection of South African economic hegemony they have attempted to form a unified economic and political grouping - the Southern African Development Coordination Conference. It is difficult to assess the successes in this direction at this early stage. However, the effects have not been to reduce the dependency of the participating countries on South Africa's food exports, technology or transport system. This it was argued is due to the difficulties in overcoming the realities of geographical location and economic strength. Indeed, industry tends to regard such countries as Botswana, Lesotho and Swaziland as being on the South African industrial periphery and international firms tend to locate in South Africa utilising it as a base for operations in other countries in the region.

The reality of the political and economic relationships is reflected in the pragmatism of economic cooperation at one level despite heated political rhetoric at another.
It is within the context of this uncertain and highly politicised environment that the role of the multinational corporation must be considered.

The dependence of the South African economy on foreign direct investment is, as demonstrated, difficult to estimate given the constraints on research in this area. Nevertheless, the studies cited suggest that South Africa is heavily dependent on such outside involvement in its economy. However, it was the contention of this dissertation that such dependence should not be seen in terms of purely economic parameters. Rather, it has illustrated the need to consider the wider implications of such investment within the context of the normative framework provided by the range of developmental objectives and the economic-political interaction which was found to exist.

The presence of the multinational corporation is perceived to be beneficial by a number of disparate interest groups within South Africa. The South African government encourages direct investment as an indication of foreign confidence in the future direction of its rule in South Africa while a number of Black South Africans see such firms as, for example:

- providing work within organisations which are sensitive to the considerable pressure abroad to improve both working conditions and employment practices;

- presenting greater opportunities for advancement within the organisation;
allowing political pressure to be exerted on the South African government by means of the leverage created by the threat of withdrawal;

- creating demonstration effects as regards employment practices, union recognition, etc.

Withdrawal, it is argued, would increase unemployment thereby either creating increased pressure on the extended family system or starvation while placing the assets of these industries in the lands of white South Africans thereby defeating the purpose of the original decision to disinvest.

Other interested groups suggest that the social and economic upheaval engendered by such withdrawal would serve to stimulate the violent overthrow of the South African government.

Because of outside pressure firms have been encouraged to make positive improvements in their social performance as well as their employment practices. However, there have been calls for foreign enterprise to make a positive contribution to the political and economic development of South Africa. This is categorically rejected by management in the home countries as was demonstrated in the previous chapter.

It is clear that the conflict between the expectations of political leaders and management will not be easily resolved because of this. Thus, the role of the enterprise must be examined within the context of the pursuit of its commercial objectives, and the multinational corporation must be regarded as a passive agent of development as defined in Chapter Two. Its role in South Africa is that of catalyst
rather than active agent of development. It can only operate within
the constraints of the environment as it finds it and not attempt in
areas of high societal politicisation to act in a positive manner.
Within the South African framework this flows from its normal strate-
gic interaction within the social, economic and political milieu in
which it finds itself.

However, the conduct of operations in South Africa leads to the
inherent politicisation of the firm's activities. Despite this,
there is little or no political risk planning.

When, therefore, examining the contribution of the multinational
corporation this must be done through a detailed examination of the
strategic-developmental interaction, as was done in the empirical
element of the discussion. The results of the study suggested how
this occurred through both the process of strategy formulation as well
as in its implementation.

7.2.4 The Strategic-Developmental Interaction

The interviews conducted suggest that the contribution of the multi-
national corporation to economic development through the strategic
interaction is substantially determined by the perceptions of the
home office of South Africa's economic and political position in
Southern Africa as well as the casuist nature of the ethical issues
facing the individual manager.

South Africa was seen as providing a sound environment for foreign
direct investment given:

- its encouragement of free enterprise;
- its relatively sophisticated financial system;
- the high level of infrastructural development;
- the large concentrated industrial and consumer markets of the Pretoria-Witwatersrand-Vereeniging Triangle;
- the continuity of its economic policies.

In addition, South Africa was perceived as providing a base for operations in other countries of the region which did not have such advantages and which were economically dependent on South Africa. Thus, to a degree development in the area has become self generating. However, a number of questions have been raised as to the nature of the changing political relationships in the region although most firms had no systematic form of political risk assessment and planning. Only one of those firms interviewed could be demonstrated to be adopting a pro-active stance in relation to such risk.

Thus, South Africa has major locational advantages resulting increasingly in the reinforcement of such regional economic dualism as already exists.

It was argued that the strategic approach adopted by firms operating in South Africa is based substantially on these overall perceptions in conjunction with the ethical framework of the individual manager. This is an area which is largely ignored in the literature and yet represents to the researcher one of the more important aspects of the firm's operations in South Africa.

The interviewees appeared to have given the ethics of investment in South Africa much consideration and on the basis of this concluded that such investment was ethically justified in terms of the overall
benefits it provided. However, this has had the effect of giving decisions an almost dualistic structure by giving consideration both to commercial implications as well as to the individual's increased awareness of the socio-political implications. This leads to the conclusion that in many instances codes of conduct are superfluous as management is acutely aware of the ethical implications of their decisions in the South African context. Interviewees argued that while codes of conduct served to concentrate the mind, firms were doing what was required in any case.

There was no evidence of a conflict between the ethical framework of the individual manager and that of the organisation as reflected in its strategic approach.

The socio-political imperative, as defined in Chapter Five, is, therefore, given detailed consideration in the strategy formulation process as is reflected in the perceptions of both the regional economic milieu and the ethics of investment in South Africa.

It is now useful to examine the economic imperative in more detail.

The organisational structures of the firms interviewed tended to reflect the nature of the products with single product firms organised on a geographical basis while the diversified firms were structured on the basis of product technology and geographical spread with the former predominating. Each of these was highly decentralised, although effective control over major strategic issues was exercised through strict budgetary control and what was in one case termed "technological dictatorship", as well as the appointment of senior management.
The researcher gained the impression that in certain instances this arms length relationship was the result of political expedience. This, however, did provide South African management with greater autonomy, particularly as management styles were compatible although it was suggested that the South African Anglo-American style of management was more adventurous and not as controlled as that in the United Kingdom.

Technology transfer tended to be incremental with holding companies dealing on an arms length basis with their South African subsidiaries. Where mergers had taken place, technical aid agreements were signed which were rigidly observed and which met government requirements.

Mergers with South African firms took place for numerous reasons - political pressure, market penetration, market protection, etc. South African industry gained considerable benefits from this in terms of technology transfer and market expansion.

While preceding paragraphs comment upon the analysis of political risk in relation to the changing political structure of Southern Africa particularly following the independence of Zimbabwe, it is necessary to examine this in relation to such risk within South Africa. The lack of such analysis and planning was surprising. Initially the researcher felt that firms were reluctant to discuss this issue. However, research suggested that there was a degree of naivété as regards planning for such risk. Where, for example, one firm had given careful consideration to the changing relationships between states in the region, it was placed in a potentially embarrassing situation by changing trends in South Africa when it was faced by demands for union recognition and was forced to act against
official advice and recognise an unregistered trade union. Other firms adopted highly reactive strategies. This appeared to be a major weakness of all of the firms interviewed.

The study, therefore, indicates that while there are similar high demands in terms of economic performance by all the firms involved, there is also considerable emphasis on the socio-political aspect both in relation to formal strategy development and implementation as well as in relation to the cognitive and ethical framework of the individual within such organisations. Thus, in terms of the three-dimensional strategic taxonomy proposed in Chapter Five, it may be concluded that the firms interviewed fall into the area shown in Figure 7.1, and that long term foreign direct investment by British firms makes a positive contribution to the development of South Africa defined in terms of the developmental objectives proposed in Chapter Two.

7.3 THE THEORETICAL IMPLICATIONS AND SUGGESTIONS FOR FURTHER RESEARCH

The analysis of this study illustrates that it is possible to overcome the theoretical objections raised by such economists as Seers and Streeten by means of a restructuring of the analytical and methodological framework within which development is currently examined. (Seers, D., 1963; Streeten, P., 1972.) Essentially, this may be done by utilising the normative approach, recognised by Myrdal to be of significance and not necessarily an analytical weakness, in examining development in specific countries. (Myrdal, G., 1968.) The method proposed, however, requires the analysis of the effects of specific factors such as, for example, foreign direct investment on development.
The analysis of the preceding chapters therefore utilises and extends the strategic taxonomy proposed by Doz to discuss the role of British long term manufacturing investment in South Africa. (Doz, Y.C., 1980.) The study shows that it is necessary to bring together a number of disparate approaches to the examination of such direct investment strategy. To this extent the analytical and methodological framework is founded upon the wider issues raised by such writers as Gladwin and Walter in their comprehensive analysis of conflict management and Marsh in the questions he raises as to the role of ethics in business. (Gladwin, T.N. and Walter, I., 1980; Marsh, P.D.V., 1980.)

However, in the past these studies have not been utilised in terms of their implications for the analysis of development and appear to have been given only limited recognition in the literature on strategy. The study suggests that consideration needs to be given to such studies within the context of a wider cross-discipline approach.

Thus, the study of development economics and multinational corporate strategic planning implies a wider knowledge base than has been considered necessary in the past and it is important to give detailed consideration to the analytical approaches which are now available as a result of the work of such writers as this study has attempted to do.

Thus, as an exploratory study of a wide-ranging and complex subject, this investigation encountered a number of areas which would benefit from further research. It is, however, important to distinguish between areas of interest and those in which there are definite gaps in the knowledge of multinational corporations, strategic planning and economic development. A selection of these are proposed in terms of the following questions:
- How should current methods of economic analysis be applied to the study of economic development in Southern Africa given the social, political, cultural and economic complexity of the region?

- What is the impact of foreign direct investment on the socio-political parameters of development where firms reject a positive role other than in commercial issues?

- What effects does the economic-political conflict in South Africa have on the operations of the firm in other areas of Southern Africa?

- In what ways does the ethical framework applied by individual executives to operations in the less developed countries differ from that applied in developed countries?

- How do these differences affect the implementation of strategy in these countries?

This set of questions constitutes only a brief outline of the topics which may be explored.


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RECI PROCAL EFFECTS OF ECONOMIC DEVELOPMENT
AND MULTINATIONAL CORPORATE STRATEGY

VOLUME II

Submitted by Nicholas Temple van der Walt
for the degree of Ph.D.
of the University of Bath
1984

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N.T. van der Walt
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TWO CASE STUDIES

A.1 INTRODUCTION

While the interview based discussion of the preceding chapters provides an overview for developing an understanding of the strategic issues involved in conducting operations in South Africa and thereby a basis for assessing how the nature of the environment and the strategic approach adopted in response to it determine the developmental role of foreign direct investment, the analysis is limited.

Firstly, it is limited by the fact that it examines only long-term foreign direct investment by British manufacturing organisations. As such it does not consider the shorter term involvement of firms in, for example, major infrastructural or construction projects.

Secondly, and following from this, it does not consider the role of such service organisations as international banks and consultancy firms in the developmental interaction.

Thirdly, it is both of relevance and interest to examine how international firms may collude and also how their operations are affected by South Africa's homeland policies.

Finally, the analysis examines overall issues the approach to which is determined to a significant degree by the overall strategic philosophy of the firm and its management ethos. As such it has not been applied to determine how the firm's response to particular commercial situations may reflect its strategy and determine its role.

For these reasons the researcher has developed two case studies which
briefly examine the short-term involvement of a number of firms of European, rather than British, origin in South Africa. The first case, citing the International Electrical Agency as an example, demonstrates how strategically integrated firms may coordinate their strategies to achieve certain desired objectives which may have the effect of widening the international development gap. The study then examines how firms may respond when such secret agreements fail.

The second case study examines the role of a firm of international hydro-electric consultants in the establishment of a consortium of Swiss banks and heavy engineering organisations to initiate a major infrastructural project in the Transkei and the implications of the subsequent failure of the project in terms of its developmental objectives. Specifically, it discusses how international firms may adjust their strategic approach to the internal political structure of South Africa by examining the Tsitsa Project in the Republic of Transkei which is totally dependent on South Africa and not recognised by any other country in the world, being regarded as an artificial creation of apartheid.

Thus, these two studies supplement the analysis of the preceding chapters by presenting a view of certain developmental problems facing South Africa and the difficulties facing the investing organisations in direct and practical terms, illustrating points of relevance with examples. As such the conclusions that may be drawn are clearly limited by the nature of the firms discussed. It is beyond the scope of this Appendix to determine the extent to which the issues highlighted exist and the degree to which they therefore have an effect on economic growth and development. The objective of the discussion is to merely attempt by means of a brief investigative study to high-
light in practical terms the problems facing the enterprise operating in South Africa as well as the difficulties inherent in host countries accepting such involvement as a means of development.

Each case is based on information from a variety of sources including private documents, memoranda, inter- and intra-organisational communications and a limited number of interviews.

A.2 THE EFFECTS OF COLLUSION ON THE DEVELOPMENTAL ROLE OF THE FIRM IN SHORT AND MEDIUM TERM PROJECTS

This case extends Doz's approach to the determination of strategy by suggesting that it is possible for elements of the organisation's strategic approach to be externalised through the coordination of its activities with those of its competitors. (Doz, Y.L., 1980.) It is argued that formal strategic coordination through the extension of internal strategies of integration to industry wide relations is of significance to the less developed world because of its potential impact on economic development.

One example of such externalisation lies in the formation of cartels. The ensuing paragraphs therefore examine the effects of two large international industrial cartels on South African economic development. The members of each cartel are faced by a highly complex technological environment with changing market requirements and high levels of investment in capital and manpower with their concomitant political implications as regards employment and national prestige. Where the nature of the product results in a strategic approach based upon integration the pressure of uncertainty and the costs of competition may reinforce a desire to limit such costs and risks through agreement. The international heavy electrical industry has, for example,
reached such an agreement through the International Electrical Agency (IEA) based in Lausanne, and this cartel has been extremely effective in South Africa as will be demonstrated below.

The importance of the South African market is indicated by the fact that the Electricity Supply Commission (ESCOM) alone will spend R14,000 m in 1981 monetary terms on new projects and variations of old projects over the next decade. The implications of this may be seen where one order for six 600 MW turbine generators placed with GEC was claimed to secure 8,500 jobs.

However, to compete in such a market requires not only a detailed knowledge of that market and its unique characteristics and technical requirements, but also a major investment in terms of long-term relationships with the purchasers and the need to consistently perform to a high level to remain on ESCOM's list of approved tenderers. The preparation and submission of tenders for major items of plant may be extremely expensive, costing in the case of Matimba, for example, in excess of R300,000.

The research and development costs for such contracts may also be expensive, not only in terms of the direct costs but also in terms of the costs of failure. This is well illustrated by cost of the failure of three out of four 500 MW turbine generator sets at Liddel in Australia, effectively reducing New South Wales' generating capacity by 25%.

Thus, the technical and market environments faced by the industry may be seen to encourage collusion.

The IEA is one of the few cartels in operation today which epitomises
the classic cartel form:

a. it has survived intact since 1930 when it was founded, despite suspension during the war, to the present in much the same form;

b. it governs trade throughout the world in one branch of manufacturing - heavy electrical equipment - of great importance to economic developments;

c. it includes virtually all of the industry's major competitors. In 1977 it was made up of fifty-five members from twelve countries, each belonging to one or more of ten product sections. The IEA also embraces according to its basic agreement covering exports each of its members' associated companies and licensees insofar as it can control them. (Table A.1)

The cartel, however, operates in the guise of a trade association with its main activities involving statistical and market research. Despite the secretive nature of the IEA its secrecy has been breached on various occasions.

Most of what is known about the IEA before the war is contained in a Federal Trade Commission report published in 1948. (Federal Trade Commission, 1948.) In 1957 a British government report offered some further details on its operations while in 1965 Dr. Barbara Epstein, an economist working for the consultancy firm of Horace J. De Podwin Associates, obtained a copy of the basic agreement covering
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* "Into" refers to merger with another member whose code number is indicated.


Section H (Transformers) of the IEA, along with details on prices and sales in that Section. (Monopolies and Restrictive Practices Commission, 1957; Epstein, B, 1971.) Five years later Kurt Mirow received agreements covering the operation of the cartel in Brazil which he used to demonstrate how foreign firms had eliminated indigenous Brazilian competition. (Mirow, K.R., 1977 and 1979.) In 1977 Dr. Richard Newfarmer, a development economist with Notre Dame University, obtained copies of the contracts covering nine IEA product sections and in 1980 together with Dr. Epstein prepared a report on the cartel for the Congressional Committee on Interstate and Foreign Commerce. (Epstein, B. and Newfarmer, R., 1980.) In 1979, however, there was
a major leak to Kurt Mirow of various documents. Despite these occasional leaks very little has been forthcoming concerning the effects of the IEA on South Africa. Nevertheless, it is useful to consider the potential developmental implications of such cartels in some detail.

A. The Developmental Implications

In an interview with the South African Sunday Times on the 18th October 1981, following allegations of price rigging by foreign firms supplying equipment to ESCOM, ESCOM's Chairman denied the possible existence of a cartel. However, shortly afterwards he contradicted this in a second interview by stating:

"While there are reasons which tend to strengthen the belief that such cartels existed or still exist this effectiveness as regards ESCOM is doubted." (J.H. Smith, Chairman, ESCOM)

When further questioned as to why ESCOM had failed to act against the IEA, it was argued that because of its awareness of prices in other countries and constant vigilance to obtain the best prices, ESCOM was convinced that prices were fair and obtained in a free market. This, however, tends to belie the facts:

a. The researcher was informed by senior members of ESCOM that the existence of the cartel was discussed at both Tender Board and Management meetings. In addition certain members of ESCOM had, for various reasons, been informed directly of the existence of the cartel.
b. The difficulties of making price comparisons under normal circumstances are legion. Where these are compounded by the existence of possible price distortions the accuracy of such comparisons must be extremely suspect.

c. Even if ESCOM had wished to there is little action it could take against the cartel. Only the Saudi Arabian government has to date made any positive attempt to overcome the effects of the IEA, when bids for transformers, power lines, diesel generating sets and switchgear ranged from two to four times the independent price estimates. The power of the IEA cartel may be further seen by reference to its effectiveness in such countries as Brazil. To admit to an inability to act would be politically embarrassing.

In addition, the evidence and available documentation directly contradicts such a statement. Essentially, members of the cartel have concluded agreements aimed at neutralising smaller manufacturers and then at artificially raising their profits on export projects by between 16 and 62 percent. depending on the target country. The cartel further ensures that major contracts are equitably distributed among its members.

In terms of various secret agreements it is arranged in advance what tender prices are to be, who is to be put in the most favourable position to win the contract and how losing members are to be compensated. In communications from the IEA headquarters in Lausanne
members are referred to by code numbers and letters (Japanese members).

The Sunday Times showed this in relation to contracts for Matla power station, the Hendrik Verwoerd and Van der Kloof hydro-electric project and the Drakensberg Pumped Storage Scheme. (Sunday Times, Op.Cit.)

Despite having to make a series of low price tenders in the mid-1960's to overcome competition by non-members, cartel members were able to win tenders for transformers in South Africa at prices nearly 20% above that they would have made without them.

One cartel report lists eleven South African tenders for transformers awarded to cartel members between May 1965 and December 1967. In two cases the cartel submitted only one tender raising the prices to 113 percent and 121 percent of their reference prices. This list indicates that when the cartel was functioning it was able to raise its prices by as much as 50 percent.

All product sections covered by the IEA have extremely detailed tendering and contract agreements to reduce the risk of contracts being awarded to non-designated "winners". Copies of the agreements still effective in 1976 are included in the documents obtained by the American Congressional Investigators. Terms differ between each Agreement but include, for example,

a. the fixing of prices at regular meetings in so-called "price-handbooks";

b. inflation and escalation clauses which are dealt with in terms of fixed multipliers;

c. market share allocations which are fixed in terms of a predetermined table and which
require the Secretary General to ensure that
tenders are allocated accordingly;

d. terms for delivery, payment and guarantees
which are fixed by standard section agreement
so that members cannot compete on that level.

Thus, members of Section E, for example, are committed to strict price
discipline. Tenders are allocated by agreement to ensure each member
receives a predetermined share. The secretariat then determines who
is entitled to the next tender and members are obliged to bid at
higher levels. Firms which do not win the tender are compensated.
Usually 2 percent of the contract price is placed in a pool for dis-
tribution at the end of each year according to the contract alloca-
tions that preceded it.

While the developmental implications of this cartel are clear it is
important to examine them before considering the direct effects of a
similar cartel on a major South African service organisation and the
nature of the strategic-developmental interaction.

(i) Development costs

Examples of the effects of the IEA cartel on direct contract costs
are listed in the preceding paragraphs. In major projects where costs
are raised in a manner determined by industry agreement rather than by
the market itself, infrastructural development costs are raised signifi-
cantly. While South African expenditure on major projects will, as
stated, amount to R14,000 m over the next decade, only one third of
this will be spent on equipment abroad. However, it is necessary to
recognise that even the domestic element of this will be subject to
substantial cartel control through the control of members of the local industry and agreements covering subsidiaries and licencees. In other countries the entire industry has been brought under foreign control with its consequent implications for price control. The effects, therefore, on the costs of development are significant and serve to indicate the manner in which the development gap between North and South is artificially entrenched, particularly when the discriminatory pricing practices of the cartel are examined in detail. Such an analysis is, however, beyond the scope of this Appendix.

(ii) Technology transfer

The effects on technology transfer are more difficult to assess. While it may be argued that it is logical for an inverse relationship to exist between the degree of collusion and effective research and development, it is more difficult to prove in fact. As stated in the opening paragraphs of this Appendix, these cases suggest a number of areas in which further study would be fruitful. An investigation into this aspect could examine equipment failure such as that at Liddel and relate this to the available documentation to determine if there is a relationship between the operation of agreements covering Section B and the supply of new untried equipment to industrialising nations. Such a study would to a large extent, therefore, be based on the assessment of the extent to which purchasers are faced by effective market choice.

(iii) Market effects

ESCOM, following until recently the policy of the State Tender Board, when embarking on large projects or purchasing large items of plant
invited contractors on its approved list of tenderers to submit tend- 
ers for particular projects. In recent years several contracts 
have been made the subject of tender by negotiation for reasons of 
poor anticipation of demand and management failures leading to brown- 
and black-outs requiring a rapid expansion in generating capacity. 
This is at present the subject of governmental investigations which 
have recommended the suspension of ESCOM's chairman's executive role.

The operation of the cartel, however, removes the essential purchas- 
ing decision from the buyer and makes it the subject of inter-company 
negotiation in Lausanne, where organisational factors other than the 
particular interests and requirements of purchasing countries form 
the basis of the final decision. The extent to which these agreements 
may then be monitored is formidable. The researcher was informed that 
a number of the major contractors including certain ones of Japanese 
origin have extremely effective intelligence sources in operation 
within ESCOM. The exclusion of particular firms from tendering has 
been discussed in meetings of the Tender Board as a result of ESCOM 
becoming aware of this.

The result in the case of South Africa, therefore, is to effectively 
remove the purchasing decision from the buyer and place it in the 
hands of a series of firms whose objectives may not may not coincide 
with those of the purchaser, and which base contract allocation deci- 
sions on intra-organisational perceptions of the relationship between 
the nature of the market and their own requirements.

While the discussion has suggested a direct relationship between the 
activities of cartels and their particular developmental implications, 
the nature of the developmental interaction is more complex operating
through the purchasing organisation and affecting its effectiveness.

It is therefore useful to examine the potential organisational effects on the purchaser. The ensuing paragraphs discuss the effects of a second, though less stable, international industrial cartel on a South African state managed industry (SASMI) at present involved in the purchase of plant to meet both consumer and industrial demand.

SASMI, following set purchasing procedures based upon technical, financial and performance criteria but also including, given the political antipathy to South Africa abroad, political risk variables, invited tenders for six projects. The contract for the first project was, however, awarded to a tenderer other than the one appointed by the cartel agreement. Information from within SASMI indicated to the unsuccessful tenderer (Vendor A) that this contract had been awarded elsewhere despite it submitting the offer with the lowest net present value - a major decision variable in the adjudication procedure.

During meetings between the Chief Executive of SASMI and the Chairman of Vendor A in September 1974 they discussed what occurred. In November 1974 an enquiry for Project B was issued and between February and March 1975 SASMI's Chief Executive went abroad. During this trip he had discussions with the Chairman of Vendor A in the home country of the cartel on the award of the second contract for plant and equipment (Project B).

Documents which have been made available to the researcher clarify how SASMI's purchasing procedures and safeguards were bypassed as a result of an agreement whereby in future Vendor A would receive more favourable consideration in exchange for certain material benefits
accruing to the Chief Executive of SASMI. This was achieved by various means. For example:

a. By utilising inflation indices within the standard escalation rates applied during the adjudication that would favour any country where material and labour indices lag behind consumer indices;

b. Accepting that export credit guarantees could be obtained which would include partial insurance for exporters of capital goods against home country inflation on fixed-price contracts despite this being received during the adjudication process and not yet having been approved by the home country's legislature. This was to some extent a result of;

c. The leaking of confidential information during the adjudication.

While a detailed examination of the organisational elements aspects of this are of considerable interest, such a discussion is clearly beyond the brief of this dissertation. Nevertheless, its effects on SASMI are of importance:

a. Purchasing decisions: The question of the allocation of contracts by sellers and their monitoring through information sources within the firm removes the effective purchasing decision from SASMI itself. This has been discussed in relation to ESCOM and will, therefore, not be examined in detail here.
b. Ethics: Where cartels exist in secret and fail, as in SASMI's case, to achieve their desired objective, it would appear that there is a strong temptation to resort to various questionable business practices to secure the desired objectives. This applies particularly at a time when there exists considerable surplus capacity. It is more difficult to assess the firm's response to a situation as represented by SASMI's Chief Executive who was prepared to accept a consideration for his support of a particular supplier. The consequences of this in a country where such practices are considered totally unacceptable for a combination of nationalistic and religious reasons are manifold, apart from the willingness to subvert this to achieve corporate goals.

c. Organisational Morale: As a result of the manipulation of buying procedures within SASMI and the unsuccessful challenging of this by members of the organisation in various meetings, morale fell within the firm and SASMI faced extreme management dissatisfaction and the departure of certain members of its senior management structure.

d. Faulty Equipment: As a result of this intervention equipment purchased for a subsequent project failed in operation. Despite initial fears as regards its quality it was nevertheless purchased.
Market Failure: Following further intervention in the purchasing procedures SASMI for the first time in its history consistently failed to meet demand for its product. The strategic importance of this product has led to political intervention through the office of the South African Prime Minister as a result of the government's concern of the effects of this failure on South Africa's future economic growth.

B. The Strategic-Developmental Interaction

The nature of the products in the heavy electrical industry with their high levels of technology, capital and manpower in addition to their role as national industries leads, as Doz points out, to strategic integration. (Doz, Y.L., 1980.)

This case extends this by suggesting that through such strategic integration it is possible for firms to externalise elements of their strategies by means of strategic coordination through, for example, cartels. The benefits such firms derive from these agreements depend on such factors as their negotiating skills which lead such interactions to further become inputs into the strategic planning process.

While this case refers to formal coordination it has much in common with the ensuing study in terms of its developmental implications. While in the next study firms adopt similar strategic postures because of the nature of the particular circumstances in which they are operating, both are concerned with specific projects of limited time horizons. While in the next study this is limited to one project.
SASMI and ESCOM's expansion programmes follow a series of discrete projects each of a similar time period. In the case, however, of contracts subject to agreement uncertainty as to competition is reduced substantially.

The major determinant of the nature of the developmental contribution would therefore appear to be the period of involvement. While the discussion of the preceding chapters would indicate that the contribution to development of direct investment in, for example, manufacturing such as that undertaken by the Chloride Group results in an inherent politicisation process, these cases would suggest that where firms are involved for shorter periods of time with activities directed from home country or head office they are able to avoid this. However, it is important to emphasise the nature of the product at this stage. The General Electric Company, for example, with its wide product range follows a strategy of integration as regards its Turbine Division while in relation to its consumer products it follows a strategy more in line with that of any manufacturing industry.

Therefore, on the basis of the analysis of the preceding case, it is possible to argue that the developmental contribution lies in the contribution to economic growth alone as an element of development as defined in this dissertation. The extent to which firms contribute to such growth cannot as argued be assessed in any comprehensive analytical framework but only as argued in relation to the relevance of neo-classical models on the basis of the merits of each case taken on its own. This would suggest that in the situations taken above the developmental contribution was limited. Nevertheless, each
case would require further study and by their very nature serve only to indicate the nature of the strategic-developmental interaction in direct terms on the basis of independent research.

A.3 THE DEVELOPMENTAL ROLE OF INTERNATIONAL SERVICE FIRMS

A. Introduction

The relation between the strategy adopted by one firm and the implications of this on such dependent developmental variables as, for example, technology transfer, the flow of funds or the reduction of dependency may be relatively straightforward. Such analysis, however, becomes more complex when the relationship between strategy and role of a number of firms each mutually interdependent for the successful conclusions of a commercial undertaking or project is considered.

The case under consideration examines the relationship between the strategies and roles of a firm of international hydrological consultants based in South Africa and a consortium of Swiss banks and heavy engineering firms. It argues that the strategies of those involved did not lead to the ultimate failure of the project in terms of its developmental objectives. Rather, it is suggested, the inherent organisational ethos leading to the adoption of the particular strategy and the role so determined led to the rejection of a major developmental opportunity by the government concerned.

Essentially the case has four objectives:

a. to consider how service as opposed to the manufacturing industries examined in preceding chapters, may adapt their strategies to particular
situations from which they wish to extract a commercial advantage;

b. to demonstrate the complexity of a major developmental project with significant political as well as technical implications;

c. to examine how firms may coordinate their differing strategies to achieve what they perceive to be a mutually beneficial goal.

d. to suggest how firms may respond to a single project covering a limited period of time rather than, as in previous chapters, a continued commitment to an investment project.

To achieve this the discussion takes place under three headings, each in turn considering the strategic element, the developmental element and the role of the participants in the development of the state as a result of the interaction of the two.

B. The Developmental Implications of the Project

On the 26th October 1976 the Transkei attained independence from the Republic of South Africa with decision-making centralised in Umtata in a parliament under the premiership of Chief Kaiser Matanzima and comprising both traditional chiefs and representatives elected by universal suffrage.

The Republic of Transkei is nevertheless, in terms of Ström's criteria, totally economically and politically dependent on South Africa. In addition, it is not formally recognised by any other country as it is
FIGURE A.2 THE DEVELOPMENTAL IMPLICATIONS OF THE TSITSA AND MALEPELEPE SCHEMES FOR THE REPUBLIC OF TRANSKEI

OBJECTIVE

"To harness the hydro-electric potential of the Umzimvubu and export electricity"

ECONOMIC IMPLICATIONS

- Manpower
  - Increased employment
  - Increased opportunities for deportees
  - Skill and technical training
  - Reduction in labour export contribution to balance of payments

- Foreign Trade and Investment
  - Improved long-term balance of payments
  - Greater foreign economic involvement
  - Favourable international assessment of other opportunities

- Agricultural
  - Greater drought control
  - Irrigation potential
  - New crops
  - Larger production units

- Energy
  - Partial self-sufficiency
  - Cheaper supply

POLITICAL IMPLICATIONS

- Prestige
  - Increased international credibility
  - Demonstration of economic viability
  - Improved self-confidence

- Dependency
  - Less need for labour exports
  - Reduction in energy dependency
regarded internationally as being a creation of South Africa's Bantustan policy; when raising capital abroad it is dependent on South African Reserve Bank guarantees, and it remains part of the Rand monetary area. Thus, the Transkei is in the anomalous situation of being politically independent with full political self-determination and expression but only as regards South Africa on which it is totally dependent.

Following the granting of independence the South African government undertook to assist the Transkei in its development and accordingly the Department of Water Affairs was directed to carry out a hydrological study of the rivers in the Transkei with a view to establishing the degree to which its hydro-electric potential could be exploited. Various work studies had been undertaken in previous years. These may be divided into two groups:

- a. those dealing with the export of excess electricity from the Transkei to South Africa;
- b. those dealing with the supply of local demand in the Transkei.

The Department of Water Affairs duly appointed Henry Olivier and Associates, a firm of international hydrological consultants, to carry out the study on their behalf. On completion of this study it was recommended that a project at the Tsitsa Falls and Malepelepe which would result in the export of electricity to South Africa be undertaken. However, the results of this study were not published and the Secretary of Water Affairs and Dr. H. Olivier then met in Switzerland to assist in the establishment of a consortium of suppliers to undertake the project despite this not lying within the terms of
their brief. This consortium then arranged finance with a group of Swiss banks including Credit Suisse and the Union Bank of Switzerland.

The objectives of the Tsitsa and Malepelepe Schemes were set out by the members of the consortium in a meeting with the Director of Works of the Transkei in November 1978. These were stated to be as follows:

"The objective is clear, and is to exploit the hydro-electric potential of the Umzimvubu and adjacent rivers in four phases over a period of time and sell the electricity to the Republic of South Africa at a tariff that will encourage them to buy it and at the same time give a substantial income to the Transkei."

It was emphasised that:

"The alternative is to leave matters as they are in which case the Transkei will not earn an income from a renewable energy source, not take an important step towards industrialisation, risk crop failure during possible droughts and lose other material advantages."

The developmental implications, however, go beyond the relatively straightforward objectives listed during this meeting. Significantly, they include both an economic and political element. See Figure A.2. These may be listed under five headings:

a. Employment:

Such a project would increase the limited employment opportunities within the Transkei with its concommit-ant implications for the squatter problem at Nyanga
thereby reducing the pressure on the government following the deportation of squatters from South Africa.

b. Manpower Development:
The project would also serve to raise level of skills and technical training of the workforce employed on each site.

c. Energy Independence:
The Transkei would no longer be totally dependent on the South African ESCOM for its electricity supply.

d. Prestige/Confidence:
By demonstrating that it could undertake such a project the Transkei would increase internal confidence in its economic standing and force those of its detractors who felt that as a state it was not economically viable to at least reconsider their position.

e. International Economic Involvement:
Such a project would serve to indicate to other firms and suppliers that opportunities existed in the Transkei and serve to attract greater international involvement in the economy. This would perhaps also secure certain political benefits.

These reasons explain the involvement of Prime Minister Matanzima in the scheme from its inception in January 1975. At this point the
scheme was totally dependent on the willingness of ESCOM to purchase 2.3% of its requirements from the Transkei on the terms offered. Initially, therefore, ESCOM was approached with a view to convincing its chairman of the viability of the project. However, a number of factors mitigated against this despite ESCOM being specifically charged under Section 4(1)(h) of the Electricity Act, 1958 with "the investigation of new or additional facilities for the supply of electricity within any area and the coordination of existing undertakings so as to stimulate the provision, wherever required, of a cheap and abundant supply of electricity". ESCOM's objections reflected on the feasibility of the project as proposed by Henry Olivier and Associates and the Consortium.

a. ESCOM rejected the project as uneconomic because of the rate of return required by the Transkei. ESCOM felt that it could provide the equivalent supply from other alternatives as cheaply, if not more cheaply, as the Transkei given that under its constitution as a public utility it merely had to cover costs and not aim to achieve a specific rate of return.

b. Based on its experience of the Drakensberg Pumped Storage Scheme, where adverse geological conditions raised the development costs significantly, ESCOM felt that the consortium had seriously underestimated the costs and took issue with both the estimates of capital costs and the projected tariffs based partly on these.
c. ESCOM has its own operating procedures which would have entailed the Transkei adopting similar procedures thereby losing independence of operation.

d. Within ESCOM itself the Design and Construction Department wished to give precedence to other schemes, the ideas for which had been developed internally such as, for example, that at Cape Hangklip.

Despite these objections which, as will be demonstrated, could have been overcome by the establishment of more realistic cost and tariff projections and by persuading the South African government that such a project was in its political interests in terms of Prime Minister Botha's concept of a "constellation of States" and demonstrating the viability of its homeland policy, Henry Olivier and Associates decided to continue pressing for the scheme as set out in their unpublished recommendations.

C. The Strategic Approach

The ensuing paragraphs examine the strategic responses of the main participants in the project to the political and economic imperatives engendered by the proposals. It is suggested that the participants made a series of limited adjustments in response to specific developments such as, for example, the scepticism by ESCOM without attempting to integrate these adjustments into a consistent cohesive strategy. The strategic approach adopted with its lack of a stable pro-active stance may be described as one of administrative coordination. While this section concentrates on the roles and strategies of the individ-
ual participants it is useful to consider the basic determinants of the strategy adopted:

(i) **Market structure**

The world market for power generating equipment and associated civil works is, as was demonstrated in the preceding case study, highly competitive with many firms retaining high levels of surplus capacity. In addition, the number of such projects that may be undertaken by the Transkei is limited by its size as well as its financial and economic resources and the willingness of South Africa to purchase any surplus electricity generated. Thus, to retain control of such a project through advising both the purchasers and the contracting consortium could lead to significant benefits to the consultants in terms of continuity of work in a depressed market and fees.

(ii) **Technology**

The technology for such a project is well known internationally. Many developing nations such as the Transkei, however, are totally dependent on consultants or external advice for detailed economic assessments, hydrological and geological surveys, project management and the training of technicians in appropriate operating and maintenance procedures. The Transkei was totally dependent on the advice of Henry Olivier and Associates who could not only meet these technical requirements but facilitate operations through their detailed knowledge of local conditions.

(iii) **Political constraints**

Political constraints on the freedom of operation of the consortium arose in two ways. Firstly, the Swiss government, while accepting
the participation of Swiss firms in the project, would not accept financial guarantees from a state it did not recognise and required these to be obtained from the South African government. Secondly, the Swiss government insisted on secrecy "for political reasons".

Despite their unwillingness, the South Africans nevertheless agreed to provide the requisite guarantees subject to certain conditions. These included an assessment of the project and its alternatives by the Department of Water Affairs and ESCOM. This implied that not only did the Transkeian government have to accept the proposals, which it did, but experts in South Africa had to be convinced. The then Secretary for Water Affairs, Dr. Kriel, who had helped establish the consortium, was clearly in favour although ESCOM had already indicated informally that it was not because of the objections outlined above.

Having listed the significant strategic determinants it is possible to examine the roles and strategies of those involved.

It may be argued that the first of these, Dr. J. Kriel, failed in his duties in not publishing the report and exceeded his brief in going to Switzerland to assist in the establishment of a consortium of suppliers to undertake the project. He had been directed to advise the Transkei government on the hydro-electric potential of its rivers and not to initiate any project or without tender establish who should undertake the scheme.

It is, however, the role of Henry Olivier and Associates and Dr. Olivier which is of greater interest. As suggested, the strategy adopted by this firm was one of administrative coordination. This
survey was seen to provide a unique opportunity to propose a major project and put it into effect by acting as its promoter and as intermediary between the governments concerned and the consortium. Thus, a consortium consisting of Escher Wyss, Brown Boveri, Credit Suisse and the Union Bank of Switzerland were brought together to provide the necessary finance and implement the project. Henry Olivier and Associates' objective then became the implementation of the project.

The first significant obstacle to this was, as indicated, political, when the Swiss government required financial guarantees from South Africa. Henry Olivier and Associates found themselves in the position of having to cooperate with South Africa more closely and convince ESCOM at two levels - as potential purchaser and as assessor.

Their response to ESCOM's objections to the project was to call for independent verification of the initial cost estimates. These were verified as falling within an acceptable margin of error by Energy Consulting Services. This firm had, however, been directed towards Brown Boveri and Escher Wyss by Dr. Olivier and these companies had in effect simply confirmed their original estimates.

The researcher could not find any other evidence to suggest that Henry Olivier and Associates had attempted to answer any of ESCOM's other objections. However, the evidence would seem to indicate that they were relying on the nature of the political relations between the two countries to result in the South African government directing ESCOM to purchase surplus power from the Transkei.

It is also possible that a disagreement between ESCOM and the Secretary
of Water Affairs could have been used to advantage prior to Dr. Kriel's retirement.

The strategy adopted as regards the political imperative indicates various adjustments to a series of unplanned changes in the environment.

The second obstacle was commercial and ethical in nature and resulted from the role conflict that Henry Olivier and Associates found itself in. The firm were in effect advising the adoption of the Tsitsa Scheme as consultants to the Department of Water Affairs while at the same time acting as project promoters for their own benefit.

This conflict emerged clearly in the formal report on the project when in his summing-up Dr. Olivier did not comment on an offer by a French consortium led by Spie Batiquoles: Dr. Olivier argued that the report had been "received too late in the day to be considered" and also as South Africans they "had to be careful not to be seen to be meddling in the Transkei's affairs".

The French consortium managed to obtain the required information to submit an offer which appeared to be clearly more attractive than that of the Swiss. To ensure that this offer was not overlooked the French consortium sent copies of it under covering letters to the Transkeian and South African governments. As a result of sustained pressure an additional report was submitted on the French offer.

By this time, however, Dr. Olivier had ensured the success of the Swiss offer by taking the unusual step in terms of South African and Transkeian state contracts of arranging for the offer to be by negotiation rather than tender as is the norm in other than exceptional circumstances.
These responses reflect Dr. Olivier's desire for short-term strategic flexibility in developing his response to changes in the nature of the political and competitive parameters reflected in changing emphases on the political and economic imperatives. This will be further commented on below. However, it is necessary to finally consider the actions of the members of the consortium.

The Union Bank of Switzerland, perhaps recognising that a smaller scheme might be more appropriate, offered finance for two smaller schemes on the Mbashe River which were being investigated by the Swiss firm of Motor Columbus. It thereby placed itself in a position to exploit either scheme despite the fact that together with Credit Suisse it was placing pressure on the government of the Transkei to issue a statement of intent by December 1978 by threatening to withdraw their offer of finance if such a statement was not forthcoming.

At the same time Credit Suisse, through their representative in South Africa, Dr. P.G. Eggstein, were attempting to have Electrowatt Industries appointed as consulting engineers for the scheme before the end of 1978. This would have implied:

a. acceptance of the project;

b. loss of control of the project by the Transkei to Swiss consultants chosen by a Swiss banking consortium to administer the activities of Swiss contractors all directed by Henry Olivier and Associates.

At the time of writing the project had not yet been implemented and the Transkei, finding itself in an impossibly convoluted situation not knowing how to proceed, appointed a firm of South African consulting engineers - Watermeyer, Legge, Picshold and Uhlman - to advise them.
D. The Strategic-Developmental Interaction

This case demonstrates clearly the difficulty of applying the traditional forms of neo-classical analysis to assess the developmental contribution of such firms operating within these unusual economic and political parameters. The role played must, as argued in Chapter Four, be analysed within the unique constraints of the situation itself. To this end it is useful to consider the strategic-developmental interaction under three headings:

- The Economic Imperative
- The Political Imperative
- The Developmental Contribution.

(i) The Economic Imperative

Each participant, although not formally coordinating their strategic approach to the proposed project, attempted to retain maximum strategic flexibility within the parameters of the control economic objectives - the implementation of the project within the desired time constraints. It is, however, in the determination of the most advantageous time horizon for the project that significant differences in approach occur. While the members of the consortium wished for a statement of intent by December 1978, Henry Olivier and Associates wished to extend this for reasons listed in the preceding paragraphs. Given the market structure and technical requirements of the project, control of the project had to be secured. Their position as consultants enabled them to act not only as "independent advisors" to the governments concerned but also as promoters of their own interests. This facilitated the arrangement of an offer by negotiation and the pressing
for the Tsitsa and Malepelepe Scheme.

It may, therefore, be argued that the strategic approach adopted was determined firstly by the inherent ethos of the firm and the ethical parameters within which it was prepared to operate in order to achieve its objective, given the nature of the economic imperative once the project had been perceived to be a single opportunity given the limitations on the size and resources of the Transkei.

(ii) The Political Imperative

The unique nature of the political relationship existing between the Transkei and South Africa determined the nature of the response to the political imperative. The structuring of relations between the two governments and the interaction between them and Henry Olivier and Associates required an ability to react and adapt rapidly, particularly as the roles of each had not been determined prior to the Swiss rejection of Transkeian financial guarantees immediately following independence. Nevertheless, it was the political situation that created the opportunity. Thus, while the major emphasis of the strategic approach adopted focused on the economic imperative the firms were forced to retain an ability to respond to significant changes in the political and economic parameters within which strategy was determined.

(iii) The Developmental Contribution

The lack of consideration of the developmental objectives of the project other than in meetings with representatives of the Transkei government reflects the importance of the distinction between the involvement of manufacturing organisations such as, for example,
those interviewed in Chapter Six and international service organisations such as Henry Olivier and Associates.

The first aspect of this to be considered is the time factor. In many countries the level of economic development in conjunction with the nature of the project may be seen by consultants to imply that they may be involved for a short time only in the development of the country. Consequently, they may lack the social, economic and developmental commitment of manufacturing organisations with a longer time horizon for its involvement. The relationship with the host country therefore becomes exploitative, reflecting the desire to obtain the maximum benefit over the life of the particular project withdrawing upon its conclusion. To this extent the pursuit of the economic imperative determines the nature of the business practices adopted and the developmental contribution.

It should not, therefore, be assumed that benefits automatically flow from the involvement of the firm. While developmental benefits including those of a socio-political nature may flow, as argued in preceding chapters, from the long-term foreign direct investment commitment of a firm to the host country, the benefits from such short-term commitments, only arise to the extent to which they contribute to economic growth alone through the project itself.

Thus, in the case of the Tsitsa and Malepelepe Scheme few developmental benefits could be expected to flow from the firms themselves. Rather, the developmental contribution was determined by the extent to which the government of the Transkei could determine what it required from the project and direct those involved to that goal. However, it was frustrated by political factors as well as a lack of
technical and management expertise in addition to its inherent depen-
dence on South Africa. Botswana and Lesotho are at present involved
in two projects which include participation by many of the firms dis-
cussed in this study. Events to date suggest a number of parallels.