

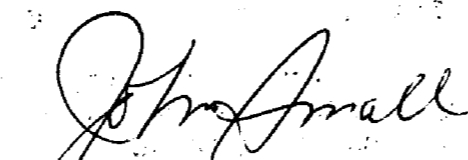
information has been provided by a wide range of individuals and organizations with an interest in and knowledge of South Africa. Visits to South Africa, Britain and the United States yielded valuable background information. The American, Australian and British code authorities have again been consulted, as well as the UN Centre for Transnational Corporations and the UN Centre Against Apartheid in New York, the Commonwealth Secretariat in London and the Investor Responsibility Research Centre in Washington D.C. Views were exchanged with South African officials in Ottawa and Pretoria. In South Africa discussions also involved representatives of trade unions, management, business and industry associations, Chambers of Commerce, Churches, legal authorities, universities, political parties and many other groups and individuals.

The Background section of this report has been expanded this year because of the changes taking place in South Africa. The situation there is at once both better and worse than it has been in recent years. An attempt, therefore, has been made to present the highlights of the economic and political situation which have had and continue to have a bearing on the difficult environment in which industrial and commercial enterprises are obliged to operate in South Africa.

For the first time since undertaking this task four years ago, it is a pleasure to report that South Africans of all races and occupations expressed to me their belief that reform is under way and that apartheid, while still in place, is on the way out. At the same time, all South Africans are not pleased with this prospect and threats to the process exist both from the extreme left and extreme right of the political spectrum. Raised hopes and expectations have already created new difficulties and are contributing to the spread and intensity of violence and turmoil. The degree and duration of these problems will be related to the progress achieved in the preliminary talks and in the substantive negotiations still to come between the Government of South Africa and non-White leaders.

I am again, deeply indebted to all those consulted who, despite their preoccupation with the rapidly changing political environment and the accompanying economic and social ferment, gave generously of their time and information; to the Canadian companies and the South African affiliates for their friendly cooperation; and to the Department of External Affairs in Ottawa and the Canadian Embassy in South Africa for their helpful logistical support.

While grateful for their contributions to my understanding of South Africa and to the substance of this report, the responsibility for its content is mine alone.


John Small
Code Administrator

Ottawa
31 May 1990

II BACKGROUND

The Economy 1989

In strictly economic terms, the modest but steady progress made by the South African economy over the previous three years came to a halt in 1989. Growth, as measured by GDP in real terms, climbed from 0.3% in 1986 to 2.1% in 1987, 3.7% in 1988 but drifted down again to 2.1% in 1989. Consumer expenditure followed a similar pattern from a buoyant 3.7% growth in 1987 and 4.9% in 1988 to a bare 1% in 1989. During the same period some success was achieved in lowering inflation from 18.6% in 1986 to 16.1% in 1987, 12.9% in 1988 but by December 1989 it had risen again to 15.4%. It has not been below 10% since 1973.*

Money supply (M3) grew at the rate of 23.5% in 1989, far in excess of the Reserve Bank's 14-18% guideline. This in itself provided ample justification for the 1 percent rise in bank rate to 18% in October which, in turn, resulted in an increase in prime rate to 21% where it remains at time of writing. Gross domestic fixed investment was in decline between 1982 and 1987 but, led by mining and manufacturing, rose in real terms by 8.6% in 1988, only to fall back by more than half to 4% in 1989.

While unemployment statistics are a subject of debate in South Africa, best estimates place the figure for total non-White unemployed at 4 to 6 million, with the rate for major urban conglomerations between 30 and 40%. These figures relate to full time employment in the formal economy. Survival, especially for non-Whites, often depends upon the informal or unrecorded economy, about the size of which there are substantial differences of opinion. In March this year, the Central Statistical Service reported that the informal sector accounted for 8% of South Africa's GDP, with hawkers (32%), crafts (27.5%) and transport (18.8%) being the major areas of activity. The Reserve Bank put the size of the unrecorded economy at a maximum of 10%. Academics and others have suggested these figures are modest and result from too restricted a definition of informal activity. Given that the official figures exclude both the Homelands and Black activities in White areas, it seems clear that 8 to 10% would be an absolute minimum and unofficial estimates range as high as 40% of total GDP. Whatever the true figure, the existence of a substantial informal or unrecorded sector reflects the inability of the formal economy to provide a living for a large portion of the South African working population. On the brighter side, Black workers who were both formally employed and unionized in 1989, received, on average, pay increases above the rate of inflation, ranging

* Some of the figures quoted differ from those used in last year's report because they have since been adjusted by the South African statistical authorities.