South Africa's foreign liabilities and assets, 1956 to 1981

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The South African Reserve Bank publishes information regarding South Africa's foreign liabilities and assets in its *Quarterly Bulletin*. This information dates back to 1956, when the Reserve Bank conducted its first Census of Foreign Transactions, Liabilities and Assets. The 1956 bench-mark information was subsequently updated by means of annual sample surveys. A second census was taken in 1973, but because of changes in some concepts and definitions in this census, the published data from 1973 onwards were not comparable with those prior to 1973. More recently, a third census relating to 1980 was taken, with yet another break in the comparability over time in the different series relating to South Africa's foreign liabilities and assets. In order to achieve comparability over time, the data before 1980 were linked to the results of the latest census. As in the past, the latest census results were extended by means of a sample survey to 1981. In this way, comparable series from 1956 to 1981 were constructed and these are published in a supplement to this issue of the *Quarterly Bulletin*.

The purpose of this article is to analyse the main tendencies in South Africa's foreign liabilities and assets over the period 1956 to 1981. A brief description will first be given of changes in South Africa's net international indebtedness, and this will be followed by a more detailed review of, on the one hand, changes in foreign investment in South Africa and,on the other, in South Africa's investment in other countries.

1. Net international indebtedness of South Africa

In the middle of the nineteenth century South Africa was a typical under-developed country with limited prospects for rapid economic development. The subsequent discovery of diamonds and particularly of gold, changed this situation and large amounts of foreign capital were invested in the country for the purpose of exploiting mineral resources. This inflow of foreign funds contributed materially to the economic development of the country during the latter part of the nineteenth century and the first half of the twentieth century.[1] The important role of this capital inflow and the development of the gold mining industry were described by J.C. du Plessis as follows: "The foreign exchange generated by the gold mining industry has provided the purchasing power for the importation of capital equipment and raw materials of manufacturing enterprises initiated by foreign investors as well as by South African residents, even though the latter often had to import specialized skills from abroad."[2]

The capital inflow generated by the discovery of diamonds and gold and the subsequent foreign investment in other sectors of the economy, resulted in a continuous increase in South Africa's net international indebtedness, i.e. the difference between its foreign liabilities and foreign assets. From the end of 1956, when comprehensive information first became available, the country's net international indebtedness (including equity capital investment but excluding gold reserves[3]) increased almost uninterruptedly from R2 067 million to R22 224 million at the end of 1981, or at an average annual rate of 10,0 per cent. Decreases in South Africa's net international indebtedness were recorded in only four of the years for which information is available, namely in 1959, 1961, 1962 and 1979. The decline in the early nineteen-sixties was related to the low rates of growth in the domestic economy and to political disturbances in certain Black townships in 1961. A small decrease in foreign liabilities was also recorded in 1979, when large surpluses on the current account of the balance of payments enabled repayments on foreign loans.

Despite the continuous increase in the absolute value of South Africa's net international indebtedness, sharp fluctuations occurred from one year to another. These fluctuations became more pronounced from the end of the nineteen-sixties. The highest annual growth rate in the period from 1957 to 1967 was 11,4 per cent, but in the period 1968 to 1981 it was as high as 30,8 per cent. Annual changes in net international indebtedness were influenced to a large extent by the prevailing rates of economic growth and by the existing overall balance of payments position. During periods of relatively high growth in the domestic economy, the net international indebtedness generally increased at a more rapid rate owing to sharp increases in the inflow of capital for the financing of infra-structural development and other forms of fixed investment. Changes in the balance of payments position contributed materially to fluctuations in net international indebtedness, particularly during the nineteen-seventies. At times, the authorities had to borrow substantial amounts of short-term funds abroad to support the level of the foreign exchange holdings, while on other occasions the improvement in the balance of payments position allowed for the repayment of such loans. In addition, exchange control over capital outflows was applied more leniently during periods when the level of the gold and other foreign reserves permitted, and *vice versa*.

As a ratio of gross national product, South Africa's net international indebtedness declined sharply from 52,4

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[1] Frankel, S.H.: *Capital Investment in Africa*, Oxford University Press, London, 1938, p.75.

[2] Du Plessis, J.C.: "Foreign Investment in South Africa", *in Foreign Investment: The Experience of Host Countries*, edited by I.A. Litvak and C.J. Maule, Praeger Publishers, New York, 1970, pp.180-181.

[3] Gold reserves are excluded from South Africa's net international indebtedness figures because they distort comparisons over time. The valuation of these reserves at market-related prices results in large fluctuations in South Africa's foreign assets. If the gold holdings are taken into consideration, South Africa's net international indebtedness amounted to R19 030 million at the end of 1981.

per cent at the end of 1958 to 35,0 per cent at the end of 1964. Subsequently, this ratio fluctuated around 35 per cent, before increasing substantially to 50,9 per cent at the end of 1976 and declining again to 33,0 per cent at the end of 1981. During most of the past 26 years, South Africa's net international indebtedness was at a relatively high level, averaging 41,8 per cent of gross national product.[4] In comparison, the net international indebtedness of Canada, for example, amounted to an average of 26,3 per cent of gross national product during the period 1972 to 1978.[5].

Table 1: South Africa's net international indebtedness, 1956 to 1981[6]

At the end of	R millions*	Annual percentage growth	Percentage of GNP
1956	2 067	...	50,4
1957	2 194	6,1	50,4
1958	2 349	7,1	52,4
1959	2 306	−1,8	48,5
1960	2 426	5,2	47,9
1961	2 327	−4,1	43,7
1962	2 264	−2,7	39,6
1963	2 297	1,5	35,9
1964	2 461	7,1	35,0
1965	2 729	10,9	35,6
1966	3 039	11,4	36,4
1967	3 224	6,1	34,4
1968	3 910	21,3	38,7
1969	4 350	11,3	38,4
1970	5 136	18,1	41,4
1971	6 343	23,5	46,2
1972	6 953	9,6	44,8
1973	7 566	8,8	39,4
1974	9 407	24,3	39,9
1975	12 121	28,9	46,2
1976	15 087	24,5	50,9
1977	16 302	8,1	49,8
1978	16 896	3,6	44,4
1979	16 119	−4,6	35,3
1980	16 992	5,4	28,7
1981	22 224	30,8	33,0
Average	...	10,0	41,8

*Excluding the gold reserves of the country.

2. Foreign investment in South Africa

The substantial increase in South Africa's net international indebtedness came about mainly because of acorresponding increase in foreign investment in South African enterprises. South Africa's foreign liabilities are analysed in more detail in this section. In particular, attention is focussed on the need for foreign capital, the growth and structure of foreign liabilities, the geographical distribution of these liabilities and the return on investments accruing to foreigners.

(a) The need for foreign capital

The South African economy has always been dependent on foreign capital as a means of supplementing domestic savings with a view to maintaining a high rate of real economic growth. The extent to which a country is dependent on foreign capital is usually measured by the ratio of the deficit on the current account of the balance of payments to gross domestic investment. In Table 2 a comparison is made between these ratios for South Africa and selected other developing countries during the period 1956 to 1981. The countries selected for this comparison are more or less at a similar stage of economic development.[7] The comparison was made over a long period of time in order to minimise the effects of business cycles and random fluctuations. Since the level of the ratio of the current account deficit to gross domestic investment may be influenced by the rate of real economic growth during the periods concerned, the average annual rates of increase in the real gross domestic product of the different countries are also shown in the table. From this information it is apparent that the rate of real growth did not differ significantly among the various countries during the period under review, indicating that the ratios of the deficit on current account to gross domestic investment should give a reliable indication of the countries' relative dependence on foreign capital.

From this table it is evident that in the selected periods the ratio of the deficit on current account to gross domestic product differed substantially from one country to another. At first glance it appears that South Africa was the country least dependent on foreign capital. In the period from 1956 to 1981, the ratio for South Africa was considerably lower than those for the other countries. The ratio actually amounted to 2,5 per cent, compared with the lowest figure of 6,0 per cent for Austria and the highest figure of 17,3 per cent for Greece. However, South Africa's low ratio during this period was largely due to substantial surpluses on the current account of the balance of payments related mainly to a sharp increase in the gold price and also in other export prices. If ratios in the period 1956 to 1976 are compared, South Africa, together with Greece, Finland and New Zealand, had the highest ratios. If it is

4 Equity investment by foreigners was mainly responsible for this high ratio. The net equity investment of foreigners averaged 26,2 per cent of gross national product over the same period.

5 Statistics Canada: *Canada's International Investment Position*, Government Printer, Ottawa, 1978, p.11.

6 Unless otherwise indicated, all information given in the tables of this article is based on figures from the *Statistical Presentation of South Africa's Foreign Liabilities and Assets, 1956 to 1981* published as a supplement to this *Quarterly Bulletin*.

7 The countries were selected on the basis of their classification as developing countries by the International Monetary Fund until March 1980. Although Canada was classified as a developed country, it was also included in this comparison owing to the importance of foreign investment in this country. In March 1980 the International Monetary Fund changed its classification and South Africa and Greece are now included under non-oil developing countries and all the other countries in Table 2 are classified as industrial countries.

Table 2: The need for foreign capital of selected developing countries, 1956 to 1981
%

Country	Deficit on current account as percentage of gross domestic investment		Average annual percentage growth rate in real gross domestic product	
	1956 to 1981	1956 to 1976	1956 to 1981	1956 to 1976
Australia	10,0	7,3	4,1	4,4
Austria	6,0	3,7	4,2	4,6
Canada	6,4	5,9	4,2	4,6
Finland	7,3	9,3	4,4	4,6
Greece*	17,3	16,2	5,1	5,7
New Zealand	11,5	8,2	4,5	5,7
South Africa	2,5	10,0	4,6	4,8

*Real growth rate could be measured only from 1958.

Sources:
1. 1956 to 1969: *National Accounts of OECD Countries*, Volume 1, OECD, Paris, 1974
2. 1970 to 1981: *International Financial Statistics*, IMF, Washington, DC, March 1978 and February 1983.

further taken into consideration that Greece and New Zealand achieved relatively high growth rates in real gross domestic product from 1956 to 1976, the indications are that among the countries selected, South Africa and Finland were particularly dependent on foreign capital.

In the post-war period, South Africa's deficit on current account as a percentage of gross domestic investment fluctuated sharply. In the years immediately after the War this ratio was high owing to the development of new gold mines, averaging 41,4 per cent from 1947 to 1951. Subsequently, the ratio declined sharply and from 1959 to 1963 a surplus was recorded on the current account. During the period 1964 to 1976 the ratio fluctuated between −1,9 and 24,3 per cent. From 1977 to 1980 the current account was again in surplus, indicating that South Africa was a net lender to other countries during this period, largely owing to favourable export proceeds. In 1981 and 1982 South Africa was again a net borrower of funds from abroad and in 1982 the deficit on current account amounted to 14,1 per cent of gross domestic investment.

In order to determine the dependence on foreign capital of the various industrial sectors, the net capital inflow to each sector is expressed in Table 3 as a ratio of that sector's gross fixed investment. This table shows that, with the exception of agriculture, all the other relatively high growth sectors made extensive use of foreign funds in financing their investment. For example, the net capital inflow as percentage of the gross fixed investment of the sector electricity, gas and water, which had the highest average annual growth rate in its real product from 1973 to 1981, amounted to an average of 21,8 per cent over this period. Similarly, a comparatively large ratio was recorded for manufacturing in the period from 1973 to 1976, but the high real growth rate in the manufacturing sector's real output from 1977 to 1981 was financed to a greater extent from domestic sources. Other sectors which were net

Table 3: Net capital inflow as percentage of gross domestic fixed investment according to type of economic activity, 1973 to 1981
%

Type of economic activity	Net capital inflow as percentage of gross domestic fixed investment			Average annual percentage growth rate in real gross domestic product		
	1973 to 1981	1973 to 1976	1977 to 1981	1973 to 1981	1973 to 1976	1977 to 1981
Agriculture, forestry and fishing	0,1	—	0,1	5,1	5,5	3,6
Mining and quarrying	0,8	10,1	−2,7	−0,3	−2,8	0,6
Manufacturing	6,8	43,5	−6,7	5,4	4,3	8,6
Electricity, gas and water	21,8	24,9	21,0	6,9	6,0	8,1
Construction	−0,6	3,7	−1,6	1,5	3,0	2,2
Wholesale and retail trade, catering and accommodation	−12,1	−2,2	−15,6	2,9	5,8	3,2
Transport, storage and communication	3,2	12,3	−2,2	5,8	5,9	6,7
Finance, insurance, real estate and business services	8,6	21,2	2,9	3,5	3,0	4,6
General government	−1,8	6,3	−6,0	3,7	5,5	2,6
Other	−11,8	−25,9	−0,5	3,4	4,1	2,3
Total	4,9	17,4	−0,4	3,7	3,7	4,7

users of foreign capital from 1973 to 1981 include finance, insurance, real estate and business services; transport, storage and communication; and mining and quarrying. In contrast, the general government sector, the construction sector and the wholesale and retail trade, catering and accommodation sector during this period experienced a net outflow of funds to other countries.

Foreign capital is not only required for the purpose of achieving a relatively high growth rate, but has important other advantages. Firstly, in the case of large projects involving expenditure on research, participating foreign enterprises may be in a better position to absorb this expenditure. Secondly, foreign participation is often accompanied, not only by foreign capital, but also by the required know-how and more advanced and up-to-date techniques which are mostly only available in the highly industrialised countries. Thirdly, foreign-controlled organisations will usually have better access to foreign markets than domestically-controlled enterprises. Finally, foreign-controlled firms may also be in a better position to effect the immigration of skilled workers to South Africa.

On the other hand, there are also disadvantages involved in a country's use of foreign capital, such as the future burden placed on the country's balance of payments in the form of interest, dividends and profits which have to be paid to non-residents. Foreign companies, which operate in several countries, are often interested in production for the domestic market only and may be disinclined to lend active support to export promotion. Despite these disadvantages, a country like South Africa with large natural and labour resources, is dependent on the availability of investment capital for rapid economic progress. Although South Africa is in the favourable position of being able to satisfy a large proportion of its capital needs from domestic sources, it is not entirely self-sufficient in meeting its own capital requirements if a relatively high rate of growth is to be achieved in the longer term. The authorities have, therefore, always welcomed foreign investment and the domestic economic system is relatively free of restrictive and discriminatory measures directed specifically against foreign investors.[8]

(b) Growth and structure of foreign investment

(i) Growth in foreign investment

Reflecting favourable investment opportunities in South Africa, the country's foreign liabilities increased from R2 746 million at the end of 1956 to R32 490 million at the end of 1981, or at an average annual rate of 10,4 per cent. In these twenty-five years foreign liabilities increased in every year except in 1961 and 1979. In 1961 they declined slightly owing to the disinvestment by non-residents after the political disturbances in Black townships. Relatively permissive exchange control regulations regarding the transfer of the proceeds of sales of South African shares by non-residents at the time facilitated this process of disinvestment. A substantial surplus on the current account of the balance of payments, related mainly to sharp increases in the prices of gold and other export commodities, accounted mostly for the decline in foreign liabilities in 1979. A substantial part of this decline consisted of the repayment of reserve-related liabilities which had been contracted previously to supplement the foreign exchange reserves. In addition, there was a switching from foreign to domestic financing of foreign trade, induced by a high degree of domestic liquidity and considerably lower interest rates in South Africa than in the major industrial countries.

Although increases in foreign liabilities were recorded in nearly all years during the period concerned, the rate of increase fluctuated considerably, namely between −0,5 and 28,9 per cent. Relatively stable annual growth rates were recorded until the middle nineteen-sixties, but subsequently, wide fluctuations occurred. These fluctuations were due to various factors, including the rate of growth in the domestic economy, conditions in the domestic capital market, the government's borrowing requirement, changes in monetary policy, the margins between interest rates in South Africa and those in other countries, changes in exchange control regulations, economic policy measures introduced by other countries, the availability of capital in foreign markets, and actual and expected changes in exchange rates.

From 1956 to 1964 South Africa's foreign liabilities increased at a fairly stable rate, amounting to a relatively low annual average of 3,2 per cent. However, from 1965 the rate of increase in foreign liabilities accelerated significantly and reached high levels in 1971, 1974 to 1976 and 1981. Initially, this acceleration was related to a more rapid real growth rate in the domestic economy and to the fact that from 1968 onwards exchange control restrictions on domestic borrowing by foreign-controlled companies resulted in a sharp increase in the reinvestment of foreigners' share of company earnings. From the beginning of the nineteen-seventies the government borrowed considerable amounts abroad in certain years, and government enterprises and public corporations also resorted to foreign borrowing as a means of financing infra-structural development. In addition, the monetary authorities, in some years, borrowed appreciable amounts of short-term funds abroad in order to support the level of gold and other foreign reserves.

The increase in foreign liabilities during the early nineteen-seventies coincided with a sharp increase in the

[8] Du Plessis, J.C.: *op.cit.*, pp.193-200, Pace, Robert P.: "Legal Aspects of Foreign Investment in South Africa", *The Comparative and International Law Journal of Southern Africa*, March 1968, pp. 22-48; and Van der Merwe, S.W.: *Address on the occasion of the Italian Machinery Exhibition at Milner Park*, Johannesburg, 21 February 1980, pp.4-5.

capital intensity of the production process in the economy, at a time when there was a levelling-off in the domestic propensity to save. The lower rate of domestic saving was due mainly to a decrease in personal saving relative to the gross domestic product, resulting *inter alia* from a redistribution of real income in favour of lower-income groups and a sharp rise in the rate of inflation. At the same time, the average capital-labour ratio at constant 1975 prices increased from R7 783 in 1970 to R9 498 in 1976 or at an average annual rate of 3,4 per cent. The combined effect of these factors was an increased dependence on foreign capital.

The declining tendency, in gross domestic saving was reversed in 1977[9] and, as a ratio of gross domestic product it averaged 30,6 per cent per annum from 1977 to 1981, compared with 24,6 per cent during the period 1970 to 1976. This change was due mainly to a substantial increase in corporate saving related to the increased profitability that arose from substantial increases in the gold price and other export prices. Although the increase in capital intensity continued during the period 1977 to 1981, the rate of increase in the average annual capital-labour ratio slowed down to 2,2 per cent. The sharp increase in gross domestic savings was sufficient to cover the increase in investment until the beginning of 1981 and in this way limited the growth in foreign liabilities. In addition, the increase in foreign liabilities was restricted by an outflow of capital that was triggered by political uncertainties in 1977.

(ii) Direct versus non-direct foreign investment

The acceleration in the rate of foreign investment in South Africa, particularly from the beginning of the nineteen-seventies, was at first accompanied by a decreasing proportion of total foreign investment consisting of direct investment, i.e. the investment by foreigners who have a controlling interest in organisations in South Africa.[10] After the ratio of direct investment to total foreign investment had increased almost uninterruptedly from 49,6 per cent at the end of 1956 to 61,1 per cent at the end of 1969, it declined substantially to 41,4 per cent at the end of 1976. Subsequently, it increased again slightly to 45,9 per cent at the end of 1981. Whereas the ratio of direct investment had been consistently higher than that of non-direct investment during the nineteen-sixties, the latter increased more rapidly during the nineteen-seventies and started to exceed the ratio of direct investment in l975.

Although non-direct investment increased at a more rapid rate than direct investment from 1969 to 1976, the average annual growth rate of direct investment rose from 8,0 per cent in the period 1956 to 1969 to 12,2 per cent in the period 1969 to 1976, and to 12,5 per cent in

Table 4: Ratio of direct and non-direct investment to total foreign investment as at selected year-ends
%

At the end of	Direct investment	Non-direct investment	Total investment
1956	49,6	50,4	100,0
1961	52,5	47,5	100,0
1966	57,6	42,4	100,0
1969	61,1	38,9	100,0
1971	54,5	45,5	100,0
1976	41,4	58,6	100,0
1981	45,9	54,1	100,0

the period 1976 to 1981. Despite increased political and social pressures on foreign enterprises to disinvest in South Africa,[11] the country continued to attract capital of a more permanent nature. Moreover, although the acceleration in the rate of increase in direct investment by non-residents was to a large extent due to an increase in loan capital, the average annual growth rate of direct investment in the form of nominal share capital nevertheless accelerated from 4,1 per cent in the period 1956 to 1969 to 7,3 per cent in the period 1969 to 1976, and to 9,2 per cent in the period 1976 to 1981.

(iii) Long-term versus short-term capital

A further characteristic of foreign investment in South Africa from the end of 1956 to the end of 1981 was that, on average, nearly 80 per cent consisted of long-term capital and slightly more than 20 per cent of short-term capita1.[12] The changes in long-term liabilities corresponded closely to the changes in total foreign liabilities and the rate of increase accelerated markedly from the second half of the nineteen-sixties. In contrast to the fairly even increase in long-term foreign liabilities, the rate of increase in short-term foreign liabilities fluctuated considerably from year to year and these fluctuations became more pronounced from the beginning of the nineteen-seventies. Various factors contributed to these fluctuations, including economic policy measures, interest rate differentials, actual and anticipated exchange rate changes, changes in the value of merchandise imports and the level of the gold and other foreign reserves.

Until 1979, economic policy measures which had a direct influence on short-term foreign liabilities consisted mainly of exchange control measures and measures aimed at influencing the relative level of interest rates in

[9] South African Reserve Bank: *Quarterly Bulletin*, March 1978.

[10] The ownership of 25 per cent or more of total issued voting stock or comparable ownership or voting rights is regarded as involving control.

[11] De Loor, J.H.: *Foreign Investment in South Africa*, Address to the Graduate School of Business Administration, Cape Town, 9 May 1979, pp.19 – 23.

[12] Long-term liabilities refer to those without maturity or to those with a fixed period of redemption of 12 months or longer. Short-term liabilities refer to those payable on demand or within a fixed period of redemption of 12 months.

South Africa. For example, from 1965 to about the end of 1967 exchange control was adjusted in such a way as to encourage the foreign financing of South Africa's international trade. From the beginning of 1968, however, these measures were again changed to discourage short-term inflows, since the latter contributed materially to the expansion of the money supply and indirectly to the fairly high rate of inflation at that time. In 1974 the authorities pursued once again a more restrictive monetary policy in order to keep domestic interest rates above those of other countries so as to encourage an inflow of short-term capital.

From 1979 less emphasis was placed on exchange control in regulating short-term capital movements because the emphasis shifted to market-related exchange rate and interest rate adjustments.[13] In addition, the cost of forward exchange transactions was changed periodically to influence the flow of short-term capital. This instrument was first applied on 18 April 1980 when the Reserve Bank raised the discount on forward exchange transactions in such a way as to encourage the off-shore financing of foreign trade.

Another factor that contributed materially to the fluctuations in short-term capital movements during the nineteen-seventies was exchange rate changes or, more importantly, anticipated exchange rate changes which led to leads and lags in foreign payments and receipts. When an appreciation of the rand was expected, importers tended to postpone their payments to foreign suppliers for as long as possible in order to obtain the maximum advantage from exchange rate changes, whereas an expected depreciation of the rand tended to lead to a shift to the domestic financing of foreign trade. The volatility of exchange rates during the last decade, therefore, was an important cause of large periodic fluctuations in short-term foreign liabilities.

Changes in the value of imports also had a significant influence on changes in short-term foreign liabilities. An increase in the value of imports normally results in the increased utilisation of foreign credit facilities which is technically recorded as an inflow of short-term capital, whereas a decline in the value of imports brings about an outflow of short-term capital. Since these changes in imports are in general dependent on aggregate domestic economic activity, they engender a cyclical element in short-term capital movements. Changes in the volume of imports normally closely reflect cyclical changes in the domestic economy. Although they may, at first, be countered by price changes, they usually also lead to corresponding changes in the value of imports and, therefore, in outstanding short-term foreign liabilities.

Finally, changes in the overall balance of payments situation were important causes of the fluctuations in short-term foreign liabilities. A deterioration of the balance of payments position normally leads to the borrowing of short-term funds abroad by the monetary authorities to support the level of the foreign exchange holdings. These loans made major contributions to the sharp increases in short-term foreign liabilities during 1975, 1976 and 1981. As the balance of payments position improves, the short-term foreign loans are repaid and this leads to a smaller increase or an absolute decline in short-term foreign liabilities, as in 1979.

(iv) Foreign investment by type of institution

In addition to changes in overall foreign investment in South Africa, the sectoral distribution of foreign liabilities changed significantly from 1956. As shown in Table 5, the ratio of the private sector's foreign liabilities to total foreign liabilities started to decline in the middle of the nineteen-sixties and the rate of decline accelerated markedly until the middle of the nineteen-seventies. The ratio of the private sector's foreign liabilities declined slightly from 86,6 per cent at the end of 1956 to 84,5 per cent at the end of 1966. This decline coincided with a small increase in the ratio of the central government and banking sector's foreign liabilities and a slight decline in the ratio of public corporations' and local authorities' foreign liabilities. From the beginning of the nineteen-seventies, the ratio of the private sector's foreign liabilities declined more rapidly, namely from 83,7 per cent at the end of 1970 to 63,3 per cent at the end of 1976. This decline occurred despite an increase in the average annual growth rate of the private sector's foreign liabilities from 6,8 per cent during the period from 1956 to 1970 to 13,2 per cent during the period 1970 to 1976. This means that the increase in the foreign liabilities of the two other broad sectors, namely the central government and banking sector and the public corporation and local authority sector accelerated even more rapidly from the 1956-1970 period to the 1970-1976 period. However, from 1976 to 1981 the sectoral distribution of foreign liabilities changed again and the private sector's ratio increased moderately while that of the public sector declined.

Table 5: Distribution of foreign liabilities by type of institution as at selected year-ends
%

At the end of	Private sector	Central government and banking sector	Public corporations and local authorities	Total foreign liabilities
1956	86,6	10,4	3,0	100,0
1961	84,2	13,7	2,1	100,0
1966	84,5	13,8	1,7	100,0
1971	80,1	13,5	6,4	100,0
1976	63,3	20,5	16,2	100,0
1981	68,2	17,8	14,0	100,0

[13] This change in policy was in accordance with the recommendations of the *Interim Report of the Commission of Inquiry into the Monetary System and Monetary Policy of South Africa*, Pretoria, Government Printer, RP 112/1978.

(v) Composition of long-term capital

The increase in South Africa's long-term foreign liabilities referred to above, was accompanied by a substantial change in the composition of these liabilities. Thus the relative importance of share capital declined substantially from 25,1 per cent of long-term foreign liabilities at the end of 1956 to only 8,1 per cent at the end of 1981. In contrast the ratio of loan capital to total long-term liabilities increased sharply from 23,4 per cent at the end of 1956 to 46,3 per cent at the end of 1976, and then declined to 38,5 per cent at the end of 1981. The share of non-residents in share premium, reserves and undistributed profits as a ratio of total long-term liabilities fluctuated around 50 per cent from the end of 1956 to the end of 1981.

Table 6: Composition of long-term liabilities as at selected year-ends
%

At the end of	Share capital	Share premium, reserves and undistributed profits	Loan capital	Other long-term foreign liabilities	Total long-term foreign liabilities
1956	25,1	47,5	23,4	4,0	100,0
1961	23,7	51,8	19,6	4,9	100,0
1966	20,6	60,1	14,5	4,8	100,0
1971	15,2	53,9	26,7	4,2	100,0
1976	8,6	42,7	46,3	2,4	100,0
1981	8,1	52,2	38,5	1,2	100,0

Reasons for the decline in the ratio of share capital to total long-term foreign liabilities probably include changes in exchange control regulations in South Africa and other countries, the increasing foreign loan capital requirements of public corporations and political developments.[14] In June 1961 the repatriation of funds invested by non-residents in equity capital in South Africa was blocked, because of a large outflow of capital at that time. Although this measure prevented a further repatriation of non-residents' equity investments, it also discouraged the inflow of new foreign share investment.[15] Consequently, this exchange control measure was subsequently adjusted in several respects. In February 1976 the so-called securities rand system was introduced, according to which blocked funds held with banking institutions in South Africa became directly transferable between non-residents. Under this system a non-resident who wanted to make an investment in non-listed equity capital in South Africa had to convert his funds into rand at the official exchange rate, which was usually at a considerable premium above the exchange rate of securities rand. However, if this investment was sold, the proceeds had to be repatriated at the securities rand rate. This system, therefore, discouraged foreign investment in non-listed South African equities. From the end of 1973 to the end of 1980 the paid-up nominal value of non-residents' investment in listed securities declined from R457 million to R431 million.

In view of these and other imperfections of the securities rand system, it was replaced in January 1979 by the financial rand system according to which non-residents were allowed to invest in listed and unlisted securities as well as in fixed property at the financial rand rate. If these investments were sold, the proceeds had to be repatriated at the financial rand rate. Although this system had many advantages compared with the previous ones, it also discouraged the inflow of new foreign equity capital. "It should be pointed out that investment in South Africa by non-residents with financial rand do not benefit the balance of payments. The mechanism only enables non-residents as a group to shift existing investments in South Africa from one application to another, ..."[16] The financial rand system was abolished in February 1983, and a unitary exchange rate has since been in existence in South Africa.

Exchange control measures introduced by the United Kingdom in June 1972 and abolished in October 1979, also discouraged investment from that source in South African equity capital. In 1972 the former sterling area countries were made subject to the regulations applicable to the so-called investment pool. According to these regulations a resident of the United Kingdom who wanted to buy foreign securities had to obtain the foreign exchange from other residents who sold foreign securities. There were therefore two markets for foreign exchange in the United Kingdom, namely the official market in which most transactions took place and the investment pool that was limited to certain specific capital transactions. These capital transactions consisted of portfolio investments in foreign securities, investments in foreign fixed property, and direct investments in foreign securities not allowed by the official market. Only direct investments that were financed by foreign loans or that would rapidly benefit the balance of payments of the United Kingdom could be traded in the official market.

These constraining measures were further intensified in March 1974 when it was decided to apply the 25 per cent surrender rule, which was already applicable to other countries, also to South Africa and the rest of the former sterling area countries. Under this rule 25 per cent of the foreign exchange obtained from the sale

[14] Van der Merwe, E.J.: *Derde Sensus van Buitelandse Transaksies, Laste en Bates: Resultate en implikasies vir die betalingsbalans*, Address at the Conference of Economists and Business Economists, Port Elizabeth, 29 November 1982.

[15] Groenewald, B.P.: *The Availability and Cost of Capital to Finance Domestic Investment*, Address at the Capex '83 Conference of the Techno Economic Society of South Africa, 28 October 1982, p.13.

[16] Stals, C.L.: *Foreign Investment in South Africa and the Financial Rand System*, Address at the Investment Conference presented by Simpson, Frankel, Hern, Kruger, Inc., 13 February 1980.

of portfolio investments had to be sold in the official market, while the remaining 75 per cent had to be sold in the investment pool. In this way the supply of investment currency was further reduced. As a result of these measures, net purchases of South African securities by United Kingdom residents up to June 1972, were followed by net sales during the next seven years.

A further factor that contributed to the decline in the relative importance of foreign share capital was the marked increase in fixed investment by public corporations and the accompanying larger borrowing requirement of these institutions. From 1956 to 1981 the gross fixed investment of public corporations increased at an average annual rate of 11,8 per cent, compared with 5,1 per cent in the case of the private sector's gross fixed investment. The capital projects of the public corporations were to a large extent financed with foreign funds, partly in the form of suppliers credit.

Finally, political factors probably also contributed to the change in the investment pattern of non-residents. Political uncertainty at the beginning of the nineteen-sixties was largely responsible for the capital outflow experienced at that time. Subsequently, increasing pressure was exerted on foreign organisations with extensive[17] interests in South Africa to liquidate their investments in this country. Many institutions responded to this pressure by giving preference to short and medium-term investments in South Africa instead of longer-term investments of a more permanent nature.

The sharp rise in long-term foreign liabilities in the form of loan capital has important implications for South Africa's balance of payments because it involves a liability which has to be repaid and on which contractual interest payments have to be made. In comparison with other developing countries the outstanding loan commitments of South Africa nevertheless remain relatively small and amounted to R17 900 million at the end of 1981. Similarly, interest payments as a ratio of export proceeds amounted to only 4,2 per cent in 1981, which is also fairly small according to international standards.[18] The acquisition of foreign loan capital also had important advantages for the South African economy, since it contributed to a more rapid rate of growth and to the improvement of the infra-structure of the country.

(c) Geographical distribution of foreign investment

Like most other developing countries, South Africa traditionally has been dependent on foreign capital from the industrial countries. With the exception of Japan, the countries of origin of foreign capital have been mainly those with which close trade links are maintained. During the period 1956 to 1981, by far the largest part of foreign investment in South Africa came from the European Economic Community (EEC), followed by the Americas and the other European countries. Only a small proportion of the total foreign investment was made by investors from the other three continents.

Table 7: Distribution of foreign investment in South Africa by geographical area as at selected year-ends
%

Geographical area	At the end of					
	1956	1961	1966	1971	1976	1981
EEC countries	71,3	68,3	65,5	63,8	57,2	55,1
Rest of Europe	4,9	5,8	7,1	9,1	9,7	12,9
North and South America	14,3	13,8	16,3	17,5	24,0	23,1
Africa	2,6	3,8	4,9	3,8	2,6	2,4
Asia	0,9	1,0	1,4	1,9	2,0	3,6
Oceania	0,5	0,6	0,7	0,7	0,4	0,7
International organisations	4,8	5,9	3,3	2,4	3,2	1,6
Unallocated	0,7	0,8	0,8	0,8	0,9	0,6
Total	100,0	100,0	100,0	100,0	100,0	100,0

As shown in Table 7, the relative share of the EEC countries in South Africa's foreign liabilities declined sharply from 71,3 per cent at the end of 1956 to 55,1 per cent at the end of 1981. This decline reflected a more rapid increase in liabilities to countries in the rest of Europe, North and South America and, to a lesser extent, Asia. In particular, the share of countries in Europe other than the EEC increased from 4,9 per cent from the end of 1956 to 12,9 per cent at the end of 1981, while investment by countries in North and South America increased from 14,3 to 23,1 per cent over the same period. In contrast, the share of other African countries increased until the middle of the nineteen-sixties and then declined again to about its initial level. The relatively lower rate of increase in investment from the latter countries from the middle of the nineteen-sixties was to a large extent due to more stringent foreign exchange control measures introduced in Zimbabwe (formerly Rhodesia) from that time.

(d) The return on foreign investment

From the above discussion it is evident that South Africa was in a favourable position to obtain a considerable amount of foreign capital from other countries during the past twenty-five years. Although concern about the future political stability of countries in Southern Africa had a negative influence on the inflow of capital, South Africa nevertheless remained a relatively attractive area for investment. In Table 8 the average rate of return on foreign investment in South Africa is shown for different periods. This rate refers to the ratio of dividend and interest payments to non-residents and non-residents'

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17 De Loor, J.H.: *op.cit.*, pp.20-24.

18 According to information compiled by the International Monetary Fund the average ratio of interest payments to exports of goods and services of non-oil developing countries amounted to about 12 per cent in 1981.

share in branch and partnership profits to total foreign investment in South Africa, before providing for non-resident tax. From this information it is clear that the average yield on foreign investments in South Africa remained relatively stable between 6 and 7 per cent in the period from 1957 to 1981.

The rate of return on direct investment, however, declined sharply to only 5,6 per cent in the period 1977 to 1981, compared with 7,1 per cent in the period 1967 to 1971 and 6,2 per cent in the period 1957 to 1981 as a whole. This decline during the nineteen-seventies was largely attributable to the relatively low rate of economic growth in South Africa during the past decade. In contrast to the lower rate of return on direct investment, the rate of return on non-direct investment increased notably from an average of 6,7 per cent in the period 1967 to 1971 to 8,2 per cent in the period 1977 to 1981. This increase was due mainly to higher returns on gold mining investments as a result of a rise in the gold price and to higher interest rates paid on foreign loans during the nineteen-seventies.

Table 8: Average rate of return on foreign investment in South Africa, 1957 to 1981
%

Period	Direct investment	Non-direct investment	Total investment
1957—1961	6,5	6,5	6,5
1962—1966	6,3	6,6	6,4
1967—1971	7,1	6,7	6,9
1972—1976	5,5	7,4	6,5
1977—1981	5,6	8,2	7,0
1957—1981	6,2	7,1	6,7

In order to compare the rate of return on foreign investments in South Africa with that in other countries, the average earnings yield on foreign direct investment of the United States in certain selected countries is compared for the period 1972 to 1981 in Table 9.[19] The choice of the countries was again confined to developing countries, but information on the earnings yield in all other African countries and an average for all countries are also given. From this information it is apparent that during the period 1972 to 1981 the average earnings yield on direct investment of the United States in South Africa was only slightly lower than the average for all countries and well below that of the other African countries. In evaluating these figures it must be taken into account that the yield on direct investment in South Africa was generally low during this period. Figures for the latter half of the period concerned were also influenced by the effect of the higher oil price on the earnings of petroleum companies. The earnings of these companies were mainly responsible for the generally high earnings yield in the other African countries. South Af-

Table 9: Average earnings yield on United States' foreign direct investment, 1972 to 1981
%

Country or area	%
Australia	14,5
Canada	10,9
New Zealand	10,0
Norway	16,5
Spain	9,9
South Africa	15,8
Other African countries	27,2
All countries	16,0

Source: *Survey of Current Business*, various issues.

[19] The earnings used in this comparison consist of the US parent companies' shares in the earnings (net of foreign income taxes) of their foreign affiliates, plus net interest on inter-company current accounts, less foreign withholding taxes. This information is, therefore, not comparable with the rates of return presented in Table 8.

Table 10: Average earnings yield on United States' foreign direct investment according to main economic activity, 1977 to 1981
%

	Mining and smelting	Petroleum	Manufacturing	Trade	Finance and insurance
Australia	23,2	21,5	8,6	10,4	16,0
Canada	11,2	14,1	9,2	9,5	8,6
New Zealand	...*	...*	9,7	10,7	16,9
Norway	6,7	28,6	12,6	10,1	...*
Spain	5,8	2,9	4,9	12,9	2,9
South Africa	25,0	...*	18,4	12,3	11,2
Other African countries	...*	38,9	14,7	13,9	13,0
All countries	13,7	23,9	12,6	14,6	14,6

*Figures are not made available to prevent disclosure of information on individual companies.

Source: *Survey of Current Business*, various issues.

rica's rate of return, however, compared very favourably with the other countries included in the table.

A classification of the earnings yield on direct investment of the United States according to type of economic activity indicates that the average yield in South Africa was higher for manufacturing and mining and smelting than the average for all countries during the period 1977 to 1981. In the case of trade and financing and insurance the rates of return on investment in South Africa were significantly lower than the average for all countries. It is also significant to note that, with the exception of mining and smelting and manufacturing, the earnings yield on direct investment of the United States in South Africa was lower than that in the other African countries. In particular, high earnings were received on investments in the petroleum industries of African countries.

3. South Africa's investment in other countries

As already indicated, South Africa is a developing country which needs foreign capital to maintain an appropriate rate of real economic growth. South Africa is therefore not in a position to invest to any large extent in other countries and South African residents are as a rule not encouraged by the authorities to do so. The exchange control regulations do not allow South African residents to invest in foreign countries without the approval of the exchange control authorities. Approval is generally only granted when the gold and other foreign reserves are sufficient to allow such investment; if it is considered that investments abroad will result in new South African exports so that the loss in foreign exchange will be recouped within a relatively short period through higher export proceeds; if the purpose of the investment is to protect or extend existing exports; and if the investment will promote the export of South African expertise. At times of excess domestic liquidity, portfolio investments were allowed occasionally by the authorities as part of a policy of monetary management. For example, in 1970 mutual funds were permitted to invest in foreign shares.

(a) Growth and structure of foreign assets

Despite the restrictive foreign exchange control measures, South Africa's foreign assets increased from R839 million at the end of 1956 to R5 632 million at the end of 1977, before it increased at a more rapid rate to R13 460 million at the end of 1981. However, this acceleration was mainly the result of a change in the method of valuing the gold reserves. Until the end of 1977 the gold reserves were valued at the then existing official price. From 1978 the gold reserves are valued monthly at 90 per cent of the average of the last ten price fixings on the London market during that month. If the gold reserves are excluded, South Africa's foreign assets nevertheless increased at an average annual rate of 11,5 per cent from 1956 to 1981.

Table 11: Ratio of direct and non-direct investment to South Africa's foreign assets* as at selected year-ends
%

At the end of	Direct investment	Non-direct investment	Total investment
1956	36,5	63,5	100,0
1961	46,7	53,3	100,0
1966	49,0	51,0	100,0
1971	43,5	56,5	100,0
1976	46,0	54,0	100,0
1981	53,2	46,8	100,0

*Excluding gold reserves.

With the exception of 5 years, increases in foreign assets were recorded in each of the years during the period 1956 to 1981. However, sharp fluctuations were recorded in the annual rates of increase in South Africa's foreign assets during these twenty-five years. In particular, sharp increases occurred in 1961 and 1962, owing to a substantially larger reinvestment of earnings on direct investment by South Africans in other countries. These increases were probably prompted by the political uncertainties at the time. Further sharp increases were recorded during 1966, 1968, 1972 and 1975, owing to the relatively high level of domestic liquidity in those years, especially during 1968. From 1978 to 1980 the growth rate in foreign assets accelerated sharply because of, not only a rise in the gold price, but also substantial increases in the reinvested earnings and foreign short-term assets of the private sector.

As a result of the emphasis on a policy of export promotion, the rise in South Africa's foreign assets (excluding gold reserves) was accompanied by a corresponding sharp increase in the ratio of direct investment to total foreign assets, namely from 36,5 per cent at the end of 1956 to 53,2 per cent at the end of 1981. The fairly rapid growth in investments which involved control of organisations abroad was mainly the result of a substantial increase, at an annual average rate of 18,0 per cent from the end of 1956 to the end of 1981, in reinvested earnings accruing to South African investors. Increases in holdings of share and long-term loan capital also contributed to the rapid rise in direct foreign investment. During the period 1956 to 1981 the share and long-term capital invested in organisations abroad grew at average annual rates of 8,8 and 14,7 per cent, respectively.

Changes in the composition of South Africa's foreign assets are shown in Table 12. The increase in the relative importance of long-term foreign assets during the period 1956 to 1981 resulted mainly from a sharp rise in reinvested earnings. The ratio of share premium, reserves and undistributed profits to total foreign assets (excluding gold reserves) increased from 9,8 to 34,6 per cent during these twenty-five years. After it had shown

Table 12: Composition of foreign assets* as at selected year-ends
%

Type of asset	At the end of					
	1956	1961	1966	1971	1976	1981
Share capital	15,0	18,5	17,2	13,1	9,3	6,3
Share premium, reserves and undistributed profits	9,7	15,5	25,3	25,7	26,9	35,0
Loan capital	23,7	24,3	22,1	23,5	23,7	22,8
Other long-term assets	11,4	10,0	6,8	3,9	1,1	2,0
Total long-term assets	59,8	68,3	71,4	66,2	61,0	66,1
Foreign exchange reserves	22,5	8,8	12,3	14,3	10,3	10,2
Other short-term assets	17,7	22,9	16,3	19,5	28,7	23,7
Total	100,0	100,0	100,0	100,0	100,0	100,0

*Excluding gold reserves.

an increasing trend until 1961, the ratio of share capital to total foreign assets started to decline, while the ratio of loan capital remained fairly stable throughout the entire period. Although sharp fluctuations occurred from time to time in foreign short-term assets other than the gold and other foreign reserves, the ratio of short-term foreign assets to the total also showed an increasing trend from the end of 1956 to the end of 1981. On the other hand, a compensating decline occurred in the ratio of foreign exchange reserves to total foreign assets from 1956 to 1981.

Finally, it is interesting to note that the larger part of South Africa's foreign assets is owned by the private sector. This sector's share of total foreign assets increased consistently from 1956 and amounted to 55,0 per cent at the end of 1981. The share of the public corporations also increased sharply, particularly during the nineteen-seventies. However, the central government and banking sector's share of total foreign assets declined notably from 1956 to 1981, mainly because of the relative decrease in foreign exchange reserves.

(b) Geographical distribution of foreign assets

Traditionally South Africa's foreign investments have largely been confined to other countries in Africa and the EEC countries. During the period 1956 to 1981 the ratios of investment in Africa and the EEC countries to total foreign assets, however, dropped sharply, whereas the ratio of investment in North and South America increased substantially. In particular, foreign assets in the Americas increased substantially during 1980, but this increase came about mainly because of a transfer of assets between multi-national companies.

Table 13: Distribution of South Africa's foreign assets* by geographical area as at selected year-ends
%

Geographical area	At the end of					
	1956	1961	1966	1971	1976	1981
EEC countries	34,2	30,4	33,3	35,3	26,5	27,6
Rest of Europe	1,7	2,7	4,5	8,0	9,7	5,1
North and South America	12,5	9,3	10,9	11,3	17,4	30,2
Africa	37,8	42,7	37,7	29,0	32,3	24,0
Other, including unallocated items	13,8	14,9	13,6	16,4	14,1	13,1
Total	100,0	100,0	100,0	100,0	100 0	100,0

*Excluding gold reserves.

Although South Africa's foreign investment in the rest of Europe remained relatively small from the end of 1956 to the end of 1981, the ratio of total foreign assets increased moderately. In contrast, only a negligible proportion of the country's foreign assets represented investments in Asia and Oceania.

South Africa's foreign investment in the rest of Africa consisted largely of share capital and reinvested earnings. Foreign assets in the form of shareholders' interest in Africa became relatively less important over the period from the end of 1956 to the end of 1981, because of the relative increase in investments in the EEC countries and the Americas. Shares and reinvested earnings also formed an important part of the South African assets in the EEC countries. Other investments in these countries consisted mainly of foreign short-term assets. The structure of South Africa's assets in the Americas corresponds fairly closely to that of assets in the EEC. However, short-term foreign assets of the central government and banking sector in the Americas were relatively more important because of the importance of dollar holdings in South Africa's foreign reserves. South Africa's investments in Asian countries were largely composed of loan capital and credit related to export transactions.

(c) Return on South African investments

The average rate of return on South African investments in other countries during the period 1957 to 1981 is shown in Table 14. Income on foreign assets consists of total receipts before tax on foreign investments and does not include reinvested earnings. From this information it is apparent that on average, South Africa received a yield of 5,7 per cent on its foreign assets during the period 1957 to 1981, and that the rate of return increased considerably from the middle of the nineteen-sixties until the middle of the nineteen-seventies, before it declined sharply in the period from 1977 to 1981. It is also evident that direct investment proved to be far

Table 14: Rate of return on South Africa's foreign assets*, 1957 to 1981
%

Period	Direct investment	Non-direct investment	Total investment
1957—1961	7,7	2,9	5,0
1962—1966	8,4	2,8	5,4
1967—1971	10,7	3,3	6,8
1972—1976	9,9	3,9	6,7
1977—1981	5,2	3,8	4,5
1957—1981	8,4	3,3	5,7

*Excluding gold reserves.

more profitable than non-direct investment, with an average rate of return of 8,4 per cent against 3,3 per cent. However, after the average rate of return on direct investment had increased substantially during the nineteen-fifties and nineteen-sixties, it declined sharply during the nineteen-seventies and amounted to an average of only 5,2 per cent during the years 1977 to 1981. In contrast, the rate of return on non-direct investment showed a slightly increasing trend, but remained well below that on direct investment.

4. Summary

In the above discussion it was indicated that during the period 1956 to 1981 South Africa, as a developing country, continued to make use of foreign capital in attaining a relatively high rate of real economic growth. The net international indebtedness of the country, therefore, increased almost uninterruptedly and the average annual rate of growth from the end of 1956 to the end of 1981 amounted to about 10 per cent. During the period under review, South Africa's net international indebtedness averaged nearly 42 per cent of gross national product. The need for foreign capital varied considerably over the past twenty-five years depending on the economic growth rate and the accompanying financing requirement of the economy as well as the balance of payments on current account.

After rising at a relatively steady rate from 1956 to 1964, the growth rate of South Africa's foreign liabilities accelerated sharply during the period 1965 to 1981. At first this acceleration was largely the result of the rapid rate of economic growth, including the development of the infrastructure of the country. From 1970 to 1976 it was also related to the sharp increase in capital intensity and a concomitant levelling-off in the domestic savings propensity. However, this situation changed considerably from 1977. The rate of increase in capital intensity slowed down and domestic saving increased sharply, with the result that relatively low rates of increase in foreign liabilities were recorded from 1977 to 1980. In 1981 a deterioration of the overall balance of payments position resulted in a temporary increase in foreign borrowing and, therefore, a sharp rise in total foreign liabilities.

Although South Africa's foreign liabilities increased relatively rapidly during the period 1956 to 1981, annual rates of increase fluctuated substantially owing mainly to the erratic behaviour of short-term foreign liabilities. To some extent, fluctuations in short-term liabilities reflected economic policy changes. At times of a high degree of domestic liquidity, policy measures were aimed at discouraging an inflow of short-term capital, whereas at other times the objective was to promote the foreign financing of international trade. Interest rate differentials, anticipated exchange rate movements, changes in the value of merchandise imports and the level of the gold and other foreign reserves, also brought about fluctuations in short-term foreign liabilities. In contrast, changes in long-term liabilities showed a more stable pattern.

Important structural changes occurred in South Africa's foreign liabilities over the period 1956 to 1981. Up to 1969 the ratio of direct investment to total foreign liabilities increased steadily, but it then declined sharply until the end of 1976 owing mainly to increased foreign borrowing by the central government and banking sector and public corporations. Subsequently, direct investment increased again more rapidly than non-direct investment up to the end of 1981. In addition, a rapid increase in loan capital resulted in a substantial decline in the ratio of share capital to total foreign liabilities. The relatively low growth rate in share capital provided by foreign investors was, *inter alia*, the result of exchange control regulations applied in South Africa, the restrictions in the United Kingdom on foreign investment from 1972 to 1979, and increased political and other pressures on foreign organisations investing in South Africa.

South Africa received foreign investment funds mainly from the more developed financial markets of the industrial countries and, with the exception of Japan, from countries with which it has close trade links. The average rate of return on foreign investment in South Africa was fairly stable and compared favourably with the rates of return on direct investment of the United States in other countries. The average rate of return on the United States' direct investment in South Africa was nevertheless substantially below the average for other countries in Africa during the period 1972 to 1981, owing to the sharp rise in oil prices and increased profitability of oil companies.

Although investment by South Africans in other countries was subject to exchange control, a rapid increase in South Africa's foreign assets nevertheless occurred during the period 1956 to 1981. However, part of this increase reflected the higher value of South Africa's gold reserves after a new system of valuing the reserves at market-related prices had been introduced and a substantial increase in the gold price had occurred. If gold reserves are excluded the other foreign assets also increased fairly rapidly mainly because of a sharp increase in reinvested earnings accruing to South African residents on their existing foreign investments.

In line with a policy of export promotion, South African direct investment in other countries increased at a higher rate than non-direct investment. Owing to the fact that increases in foreign assets were dependent on the overall balance of payments position and the level of the gold and other foreign reserves, annual rates of increase in foreign assets showed wide fluctuations. Foreign assets were acquired mostly in other African countries, the EEC and the Americas. The rate of return on foreign assets during the period 1957 to 1981 was much higher in the case of direct investment than in the case of non-direct investment.