South African Capitalism's Train-Smash

By Prof. Patrick Bond
Global Research, January 14, 2016
teleSUR 31 December 2015

Region: sub-Saharan Africa
Theme: Global Economy

The country's surface-level political drama should not distract from deeper fissures.

The great sweeps of capital accumulation flowing above, through and from South Africa are leaving local businesses weaker than at any other time in memory. This may be just the medicine a mostly divided and yet often over-confident left opposition requires in 2016. Corporations are now at their most unpredictable and unpatriotic, with rapid expatriation of dwindling profits, the near death of several mega-mining firms that once ruled the roost, and a schizophrenic ruling class giddily backslapping some days, but inconsolably depressed most others.

The financial roller-coaster ride that nearly all the emerging markets barely survived in 2015 could become more exciting yet in 2016, here, especially if rising forces on the political left manage to derail the faultiest, most dangerous cars. For a change, these also appear to be the ones most ready to tip over in any case, carrying the chief executive officers most oriented to brutal labor exploitation, to mining and smelting, and to reaping profits from investments elsewhere in Africa. Those cars are also bearing the load of boorish, overweight politicians like President Jacob Zuma, whose punch-drunk behavior in the last month suggests he might well flip the whole train.

Zuma's desperation musical-chairs cabinet reshuffling from Dec. 9-13 began when he fired a finance minister who was brutal to (black) poor and working people – insofar as his 2015-16 budget reduced their welfare grants and restructured retirement funds against their wishes – and generous to the (white) rich. Those who profited from apartheid and its neoliberal aftermath can now take offshore US$700,000 annually (up 2.5 times from last year), which, explains a Moneyweb reporter, "effectively ended [exchange] controls for all but the most wealthy South Africans."

According to insiders, Zuma was opposed to Nene's stay because he threatened to deny state funding to presidential friends in the airline and nuclear reactor industries (the latter, especially, from Moscow). After an uproar and as an obvious fig leaf, on December 11 Zuma publicly earmarked Nene to head up the future Johannesburg branch of the BRICS New Development Bank (NDB).

Former Finance Minister Trevor Manuel scorned this as an 85 percent job responsibility cut for Nene, revealing local elite contempt for the institution which so many commentators hoped would offer a genuine alternative to orthodox finance. (One of the two BRICS Bank directors chosen from South Africa, the erratic former central bank governor Tito Mboweni, had earlier derided the NDB as "very costly" and yet just after his appointment, he told Bloomberg that nuclear financing "falls squarely within the mandate of the NDB.")

Thanks to his unabashedly neoliberal record, Nene was so beloved by orthodox financiers that three of them – Barclays Africa CEO Maria Ramos, Investec CEO Stephen Koseff and Goldman Sachs's Colin Coleman – were, The Times reported, "in constant consultation with the ANC [and] forced the ANC to demand that Zuma reverse his decision" to replace Nene with an apparent yes-man, David van Rooyen. And behind Barclays, Investec (the fifth largest local bank) and Goldman Sachs lurked three even more threatening institutions: Moody's, Standard&Poor's and Fitch, all holding the power to downgrade South Africa's credit rating to junk bond status in coming weeks.

Immediately after Nene's firing, an estimated US$28 billion in local financial assets evaporated in two days, as investors fled. Major banks took the main hit, with one losing 10 percent of its stock market value. After banker armtwisting and to save face, on Dec. 13 Zuma shifted van Rooyen sideways to the local government ministry and rehired as finance minister Pravin Gordhan, a man just as loved by the markets as Nene and Manuel, during his 2009-14 period of neoliberal fiscal management and financial deregulation.

When the musical chairs finally halted, Gordhan quickly opposed Zuma's closest airline ally on a prohibitively expensive deal with Airbus, but apparently agreed to a vast bill for several future nuclear reactors. However, the conditions he'll face in 2016 and subsequent years are going to be exceptionally tough in part because of the desperation that businesses are now facing, and in part because his prior permission to let profits flow abroad put South Africa's foreign debt close to US$150 billion, double the amount he initially inherited from Manuel in 2009.

Worse, according to a new Global Financial Integrity report, from 2004-13 alone, the supposedly fiscally-responsible Manuel, Gordhan and Nene allowed an average of nearly US$21 billion in annual illicit financial outflows by multinational corporations. Many of the worst were apartheid's beneficiaries – Anglo America, De Beers, Old Mutual, SAB Miller, Investec, Didata, BHP Billiton, Liberty – which from the mid-1990s to early 2000s gained ANC permission to relist in London, New York and Melbourne.

As a result, a sovereign debt crisis appears on the medium-term horizon. Nearly five years ago, discussing the North African ('Arab Spring') uprisings and predicting a 'Tunisia Day' for South Africa within a decade, Moeletsi Mbeki offered a scorching critique of the ANC's sell-out to big business. The country's richest white men, according to Mbeki, "took their marginal assets, and gave them to politically influential black people, with the purpose, in my view, not to transform the economy but to create a black political class that is in alliance with the conglomerates and therefore wants to maintain the status quo."

The strategy's contradictions have been unmasked on many occasions, including the August 2012 Marikana Massacre, in which the notorious Lonmin mining house tried to end a platinum workers' wildcat strike when South Africa's now Deputy President (and then 9 percent Lonmin owner) Cyril Ramaphosa emailed in a request for "pointed" police action against the "dastardly criminals," resulting in 34 shooting victims the next day. But now the companies responsible for doing the killing are themselves under fire, losing money at a ferocious pace.

It is hard to know how much, given South African elites' world-leading level of tax fraud, misinvoicing and transfer pricing. But the share of company tax within total state revenue dropped from 27 percent in 2008-09 to 19 percent last year, as only 25 percent of 653,000 companies in South Africa reported taxable income. In contrast, South Africa was scored as having the third highest profit rate in the world by the International Monetary Fund in 2011, before the 60 percent crash of commodity prices.

Most mining houses have likewise shrunk in half or more, with Lonmin in the pits at less than 5 percent of its 2012 share value today; indeed, a few weeks ago, a US$407-million rights issue was undersubscribed by 30 percent. The South African state is jumping in with 'lemon socialism' financial underwriting, via a civil servants' pension fund. And today worth just 10 percent of its share valuation peak, Anglo American Corporation recently announced a two-thirds staff downsizing.

Finally, investments by South African capital up-continent are showing some of the same trends, especially mining houses, retail and cellphone firms. The latter witnessed the most spectacular one-year loss in African history when the continent's largest communications firm, MTN, was fined US$3.9 billion in November for having failed to disconnect more than five million of its phone lines for which people did not provide state-sanctioned identification. The firm was also recently unveiled for illegitimately channelling billions of dollars in profits to its Mauritius offshore accounts, during Ramaphosa's term as chairperson.

How South Africa's civil society and parliamentary left aims to avoid more destructive roller-coaster capitalism awaits another column.

Patrick Bond directs the University of KwaZulu-Natal Centre for Civil Society and is also Professor of Political Economy at the University of the Witwatersrand.