The Exchange Control System under Apartheid

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Abstract

Exchange controls were part of a complex system of maintaining some financial stability during apartheid, particularly as the system began to collapse due to sanctions and deteriorating external and internal conditions. The centrepiece of the system was a dual exchange rate system, introduced almost by accident in 1961 to protect against possible negative consequences after the country left the Commonwealth. From time to time, the government tried exchange control liberalisation, particularly following the recommendations of the De Kock Commission. The economic deterioration of the early 1980s, however, and the Rubicon speech of 1985 changed everything. The dual exchange system was re-introduced, and restrictions on capital expatriation were substantially tightened. This protected the economy, to some extent, from sanctions and disinvestment. However, with this short term benefit came with medium- to long-term damage. Capital was trapped inside the country, and the industrial structure became more

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and more concentrated – by 1985, the four largest corporations controlled 80 per cent of the Johannesburg Stock Exchange. (This rose to 81 per cent by 1990). In addition, in manufacturing a quarter of production was controlled by four firms. These firms could not expand offshore and expanded into all manner of non-core activities – South African Breweries, for example, controlled not only the local beer market, but had substantial interests in hotels, gaming and other leisure areas. By making it difficult for investors to repatriate capital, foreign investment was discouraged. And, the centralised system of exchange rate management meant that a functioning market-determined forward market was stunted. The era shows how capital controls can create substantial distortions, many of which persisted even after the liberalisation of the regime. Indeed some of these distortions remain today (and some of the controls too). This highlights the need for ongoing reforms to make the economy more competitive and more integrated, and develop market-based systems and 'macroprudential' rules to manage exchange rate and other external risks.

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1 Introduction

The 1963 – 1972 period has been described as the 'golden age of apartheid for those class forces that benefited from the system', with rapid economic growth and rising standards of living for all sections of the economy, but particularly for the protected white group.[2] The 1985 period onwards was in many ways the complete opposite, and all sectors of the population suffered as the system turned inward and autarkic, and the apartheid system became increasingly unsustainable both morally and economically.

This paper outlines the exchange controls that were used during the apartheid period, in particular explaining the economic conditions that led to their use. It is arranged as follows: section 2 briefly discusses the exchange rate arrangements prior to 1985, focussing on the dual exchange rate system; section 3 spends some time on developments following the August 1985 Rubicon speech, including the introduction of multiple exchange rates and capital flow restrictions. Section 4 considers possible consequences, highlighting how the system influenced industrial structure, investment and savings patterns both before and after the democratic transition. Section 5 concludes and points to some lessons that the period holds for today.

2 Exchange control, 1961 – 1983

2.1 The legal background – Currency and Exchanges Act of 1933

On 28 December 1932, the Union of South Africa left the gold standard, taking the country (and indeed much of the world) into a new monetary policy era. The first instinct was to allow currency to float (De Kock, 1954). However, South Africa was running a substantial current account surplus due to gold exports, and by the end of January 1933, the South African Reserve Bank had decided to buy

[2] Davies et al (1984), quoted by Moll (1990)

up additional sterling and maintain a fixed exchange rate system. The legislative framework for currency policy was then introduced in the form Currency and Exchanges Act 9 of 1933, and accompanying regulations. The Currency and Exchanges Act 9 of 1933 ("**the Act**") regulates legal tender, currency, exchanges and banking. Section 9 still empowers the President to 'make regulations in regard to any matter directly or indirectly relating to or affecting or having any bearing upon currency, banking or exchanges'. The currency of the South Africa is the South African rand and other legal tenders can be certain gold coins, including the Krugerrand.

This Act is indeed still in force at the time of writing (2013), and provides the legal framework for the entire exchange control system. However, when it was passed, it was not intended to support the draconian measures that needed to be taken thirty years later.

The system worked reasonably well for a sustained period of time, bringing relative stability to the rand during the Second World War, the post-war reconstruction and the global boom period that followed.

2.2 The events of 1960

From 1960, everything changed. On 3 February 1960, British Prime Minsiter Harold Macmillan addressed the South African Parliament, saying that a "wind of change … [is] blowing through this continent". The following month, on 21 March 1960, a demonstration against pass laws was held outside a police station in Sharpeville. Accounts vary as to what and how the situation deteriorated[3], but the outcome was that police opened fire on the crowd, killing 69 people. Under severe international pressure, and following a domestic referendum, South Africa left the Commonwealth in 1961.

[3] A detailed account is contained in the Truth and Reconciliation Commission report, chapter 6.

The authorities were concerned about the implications for the economy of an outflow of capital, and the economic stresses that could arise, and immediately substantial steps were taken to tighten exchange controls.

Using the framework of the 1933 Act, two proposals were accepted: first, a dual exchange rate system was introduced, and second administrative controls on currency conversion were substantially tightened (Kahn, 1991). The Exchange Control Regulations, 1961 was promulgated by Government on 1 December 1961 and amended in 1 November 2010. Together, these two measures became known as “exchange controls”, and today many aspects of the latter intervention remain. Each of these measures is discussed in more detail below.

2.3 The dual exchange rate system

2.3.1 Dual exchange rates in theory

Dual exchange rates[4] have had periods of popularity in many emerging markets (Kiguel & O'Connell, 1995). Theoretically these are very elegant systems to deal with balance of payments volatility: typically, current account transactions take place at the official exchange rate, and capital account transactions at a market determined exchange rate (Flood & Marion, 1982). Thus international reserves are unaffected by capital outflows (which lead instead to a depreciation of the parallel rate). Relative to a unified float, the effect of a dual system on domestic prices is limited because all current account transactions take place at the official (pegged or managed) exchange rate. Even Italy and France briefly had dual systems in the early 1970s; to guard against temporary external shocks brought about by the collapse of the Bretton Woods fixed exchange rate system (Kiguel & O'Connell, 1995).

Indeed by 1992, thirty-three countries operated some form of non-unitary exchange rate systems, albeit systems that varied quite substantially between

[4] Both legal systems and black-market systems.

countries and were quite different to the financial rand system used by South Africa (Garner, 1994).

2.3.2 The blocked rand –1961 to 1976

It appears the intention was not for there to be a formal dual exchange rate system – indeed the view of the authorities was that they were simply blocking funds of non-residents[5], and that this block would only be a temporary measure to deal with the immediate crisis (Farrell & Todani, 2004). However, it was obviously simple to derive the shadow exchange rate during this period, based on arbitrage conditions, and thus the emergence of the dual exchange rate (Barr & Kantor, 1983).

In practice, the dual exchange rate system entailed the introduction of a "blocked rand" for "non-residents" and a "commercial rand" for residents (Garner, 1994). The dual exchange rate system could be seen as the centrepiece of the exchange control system. Firstly, it introduced the concepts of "exchange control residents" and "exchange control non-residents", and differing treatment between the two. The intention was partly to penalise non-residents for selling South African assets; partly to support a relatively stable commercial rand, and in a related objective, guard against the inflationary impact of a rapidly depreciating currency.

The initial "blocked rand" system operated from June 1961 to February 1976. In this system, the rand proceeds from non-residents' sales of listed securities and capital assets were designated as "blocked". Funds could be used to buy quoted South African securities, which could then be transferred to London and sold. In

[5] Technically, over half a century, the blocked rand system remains – South Africans who have emigrated for exchange control purposes, i.e. changed from excon residents to non-residents, must retain assets in a blocked rand account. Until 2010, exiting these funds required the payment of a 10 per cent levy (see National Treasury 2010b).

practice, a discount was created between these securities that were freely transferable, and those that were not. This was for two reasons: first, non-residents were net sellers of securities as they were trying to exit the country; second, residents were substantial buyers of securities as they had few other investment options. The implication was that the rands in a blocked non-resident account were worth less compared to a rands in a resident account.

2.3.3 The securities rand – 1976 to 1979

The 1970 Franszen Commission of Enquiry into Fiscal and Monetary Policy in South Africa[6] argued to retain exchange controls, in view most importantly of political factors that could cause capital flight (Kahn, 1991). Nevertheless, the system needed improvement. In February 1976, the blocked rand system was altered to a "securities rand system". The new form allowed direct transfer between non-residents – i.e. non-residents could exchange securities rands with one another. Before March 1978, a rule allowed the sale proceeds of government and parastatal bonds purchased with securities rands to be freely transferred offshore. This was abolished. The effect was to reduce the incentives for non-residents to invest in such stocks.

At the same time, political pressure began to grow in the rest of the world for sanctions, and by the mid-1970s, a full scale economic boycott of South Africa was increasingly likely (Spandau, 1979). Sanctions began to bite in 1974, when Switzerland imposed a cap on borrowings to South Africa (Ovenden & Cole, 1989), and the first evidence of sanctions was the decision by Midland Bank in 1975 to stop lending to the South African government or its agencies, and to completely stop any activity with South African counterparties by 1978. After the events of 1976, Dutch commercial banks agreed to end lending to the Government, and export finance restrictions followed in 1978. More ominously, from 1977 loans from a number of banks in the United States were terminated. In

[6] More details on the commission are available in Kahn (1991), Garner (1994) or Leape (1991).

the twelve months to July 1985, seven US states and twenty-five US cities acted to move their business away from companies with South African exposure.

3 The Rubicon, and re-introduction of exchange controls

3.1 The years before the Rubicon speech

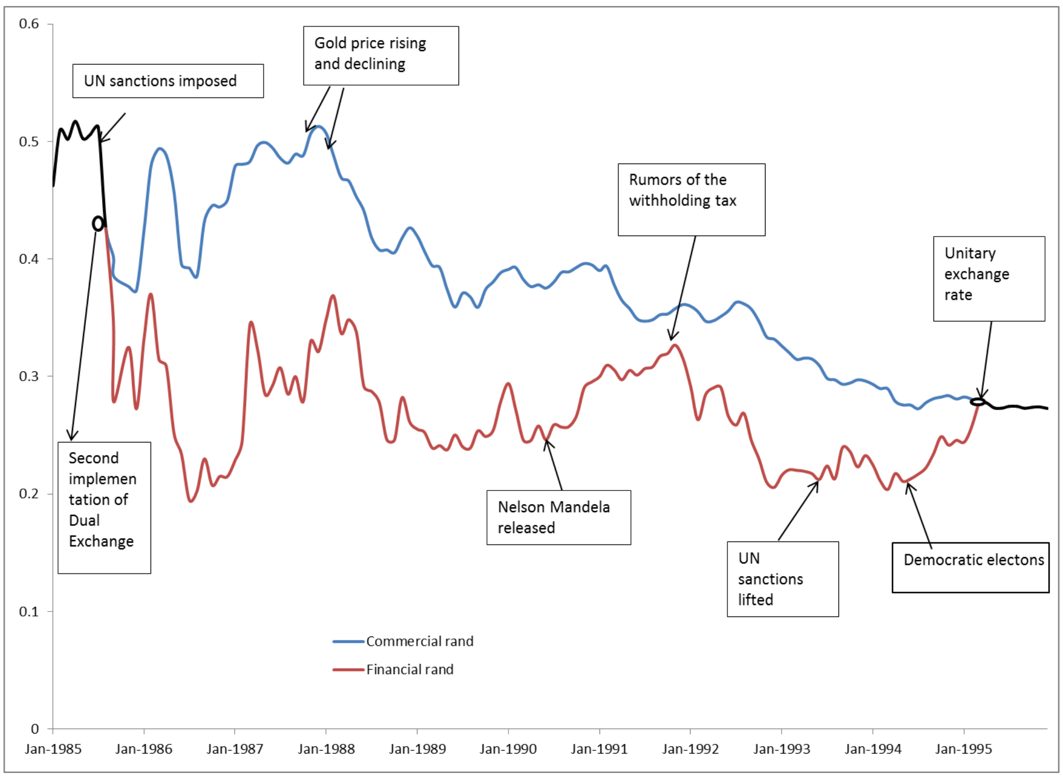
The 1980 to 1984 was particularly difficult for South Africa, as economic conditions deteriorated significantly. The commercial rand devalued substantially between 1980, with the devaluation gaining momentum in the second half of 1984

Notwithstanding the depreciation, the export-led growth that characterised the 1973 to 1979 period came to an end, and external trade grew slower than GDP (Jones, 1994). The deterioration of the balance of payments was accompanied by a substantial fiscal deterioration: Between 1980 and the end of 1984, South Africa's total external debt rose from 20.3 per cent to 45.7 per cent of GDP. The government found it increasingly difficult to raise long-term foreign currency borrowings, as many international banks began to feel political pressure to reduce their exposure to South Africa (Ovenden & Cole, 1989). External debt both increased in size and deteriorated in quality and become more short-dated as the state struggled to raise long-term financing. Over the same period, the proportion of debt maturing within twelve months rose to 65 per cent, up from 52 per cent. In contrast, private sector borrowings rose substantially, particularly borrowing from abroad. In part, this was due to extraordinarily high interest rates, which touched 10 per cent in real terms in 1984. At the same time, consumer price inflation touched 15.3 per cent in 1981.

To make matters worse, the gold price slid from a peak of US$612 in 1980 to US317 in 1985, and gold as a share of export revenues fell from 51 per cent to 44 per cent (Leape, 1991).

The sanctions detailed above did not help[i]. By mid-1985, the Apartheid state was faced with a wholly unsustainable fiscal position, lack of access to international capital markets and a current account in difficulty. The final straw was the decision by Chase Manhattan Bank to stop rolling over loans to South African at the end of July 1985 (Waldmeir, 1999). An economic crisis became a reality.

Figure 1: Financial rand and commercial rand from 1985-1995



3.2 The Rubicon speech, debt standstill and exchange controls

On 15 August 1985, on the opening of the Natal National Party Conference in the Durban City Hall, then President P.W. Botha gave a speech on the future of the apartheid state[7]. The "Rubicon speech" was widely hyped ahead of its delivery – indeed it was expected that it would signal how the Apartheid state would slowly be dismantled (Waldmeir, 1999). The economic circumstances, after all, were very difficult. Indeed, the speech did weakly promise some areas of reform, hinting even at universal franchise. But the tone was highly defensive, and the underlying message was that the Apartheid state would remain intact.

As the balance of payments rapidly deteriorated, increasingly desperate measures were taken to maintain economic stability, essentially economic autarky.

Over the course of August 1985, the (still unified) rand fell from R2.18 to R2.77, a depreciation of 27.3 per cent. The following major steps were taken in a very short space of time to deal with the economic crisis that followed the speech:

- On 31 August 1985 (just two weeks later), the government announced a debt standstill. The standstill stipulated that capital payments on foreign debt would be suspended until an agreement could be reached with creditors, although interest payments on debt would continue uninterrupted (Leape, 1991). The debt covered by the standstill totalled US$13.83 billion, about 57.5 per cent of the total outstanding[8].
- The following Monday, 2 September 1985, the dual exchange rate system was reintroduced. This had the effect of appreciating the commercial rate, which rose 25 per cent that day alone, returning to R2.22, or approximately the same level as at the beginning of August. It averaged R2.49 for the month of September. The new financial rand, however,

[7] The full speech is available at http://whatsimportantinlife.wordpress.com/2012/11/09/the-real-rubicon-speech/

[8] R50.76 billion in 1985 rands; or R124.47 billion in 2013 rands. To put this in perspective, the debt stock in February 2013 was RXX billion.

averaged R2.89 per US$ during August compared to an average rate of R2.49 for the month (i.e. the discount in the first month was 15.8 per cent);

- Exchange controls were tightened even further to protect capital flight;.
  Summary of 1985 manual:

  Non-residents: The local sale or redemption proceeds of non-residents owned South African assets were not allowed to be converted into foreign currency at the commercial rand but had to be retained in South Africa with Authorised dealers in the form of Financial Rand balances. The financial rand balance was transferable between non-residents and could be reinvested in South African quoted securities and other investments approved.

  Capital controls restricted non-residents and in turn affected inward investment into South Africa. In terms of foreign direct investments, local borrowing by foreign-owned corporates[9] was limited to 300 per cent of the foreign capital invested in South Africa. Wholly-owned local enterprises by a foreign firm were also allowed a 300 per cent local borrowing limit on shareholding capital. The 3:1 ratio was applicable and local financing above required approval from the South African Reserve Bank (Financial Surveillance Department).

  Residents: Residents must not buy, borrow or sell foreign currency except an Authorised Dealers with permission granted by the Treasury. Private individuals were allowed to invest in foreign assets but the allowance for outward investment was set at R200 000, subject to tax obligations. Assets in excess of the emigrant allowance were held in blocked Rand accounts

  South African institutional investors (long-term insurers, pension funds and unit trusts) were only allowed to enter into asset swaps of 5 per cent of their total assets.

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[9] Applies to foreign-ownership of 75% but the greater degree of the local participation relaxes the borrowing limits.

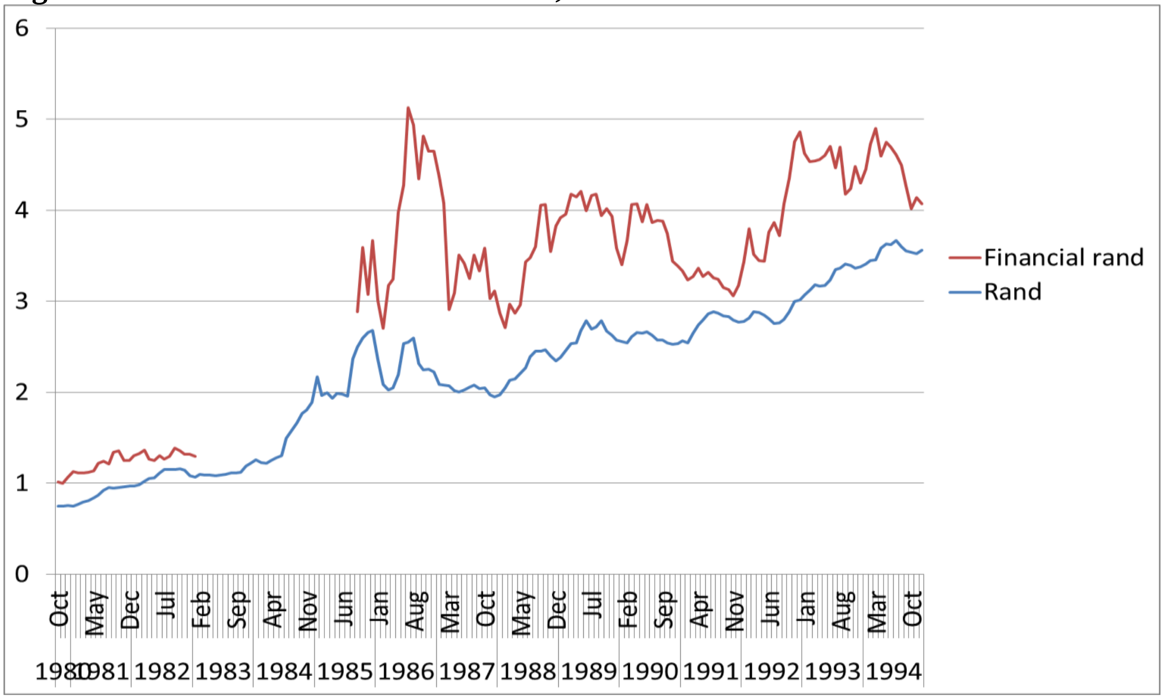
- In addition, the authorities began intervening heavily in the commercial rand market to bring some stability, at least to the domestic currency market, which ensured that the rand averaged R2.60 to the dollar for the remaining of 1985; and
- Interest rates were raised by 7 percentage points from 18 per cent to 25 per cent.
- Increased reliance on forward cover provided by the Reserve Bank, to the extent that cumulative forward cover losses reached R15 billion by 1989 (Ramos, 1991). This is the equivalent of R133.5billion in 2013 rands[10].

In all, the appreciation of the current and rise in interest rates probably had the immediate effect of preventing further inflation, but the more important effect was to impose a stringent balance of payments constraint on the economy. Capital flight became increasingly desperate, and the nature of the exchange control rules of the time highlighted how South African exchange control residents were restricted from almost any attempt to exit cash or assets, including strict rules on travelling with cash, rules on travelling with cash, and things such as rules on yachts, and amount of gold jewellery that a person could travel with.

Notwithstanding a new draconian order, the exchange rate was quite volatile. On 2 September 1985 (the day the standstill was announced), the rand fell from R2.77 to R2.22, falling 24.8% against the US dollar.

[10] Ramos (1991) provides a detailed analysis of the use of forward cover during this period. In the absence of a fully-fledged market-determined forward cover market, the Reserve Bank quoted and guaranteed forward rates, and thus took on the risk of adverse movements.

Figure 2 Commercial and financial rand, 1980 to 1994



The combined effect of the Rubicon speech and sanctions on the ability of South Africa to borrow is most dramatically illustrated by Table 2. International capital borrowings were zero between 1986 and 1987, and only began to improve slightly from 1988 onward. Long-term syndicated loans were most common, but later investors went into the securities market and private domestic firms and public corporate became dependent on credit which South African banks raised from abroad (see table 3 and 4). In terms of table 3, the composition of the South Africa debt substantially changed. Firstly, the proportion of the short-term loans rose rapidly from 49 per cent to 72.0 per cent. The second change was in the composition of debt where there was a movement from conventional long-term and medium-term loans to securitised borrowing into bonds

Table 1 South Africa's real borrowings on the international capital markets, 1980 to 1989 (1982 US$ millions)

	Public bonds	**Private bonds**	**Syndicated bank loans**	**Total gross debt inflows**
1980	198	228	424	849
1981	0	97	409	507
1982	163	164	1485	1812
1983	250	221	785	1256
1984	550	465	432	1447
1985	464	301	0	765
1986	0	0	0	0
1987	0	0	0	0
1988	0	31	0	31
1989	0	105	0	105

(Garner & Leape, 1991)

Table 2 Foreign debt in South Africa from 1980 to 1986

	For debt US$ million	For debt Rand million	Foreign debt as % GDP	Short-term loan for debt	Short-term loan debt as % of total debt
1980	16890	12595	20,3	6133	49.1
1981	18889	18081	25.5	10573	58.5
1982	22609	24249	30.4	13725	56.5
1983	23294	29116	32.5	19169	65.8
1984	24294	48230	45.7	32804	68.0
1985	23473	60142	50.0	43273	72.0
1986	22593	49513	35.2	35816	72.3

Source: South African Reserve Bank (SARB)

Table 3 Percentage structure of South Africa's foreign liabilities

	1970	1980	1983	1984
Equity capital incl.. shares, reserves	60.7	48.6	34.7	27.2
Loans to private sector	23.6	22.6	29.1	37.1
Loans to public corporations	5.2	16.5	13.7	11.5
Loans to central government	11.1	13.7	22.7	24.3

Source: SARB

The binding nature of the balance of payments constraint is most dramatically illustrated by the balance of payments statistics for the period. The discussion above highlighted that the persistent current account deficit was not adequately covered by inflows on the financial account.

Table 4 The South African balance of payments, 1982 – 1990 (Current Rand Millions)

Year	Exports	Imports	Current account	Capital movements	Gross reserves	Estimated net reserves
1982	22,220	26,042	-3,696	+4,748	4,318	2,090
1983	23,617	24,214	-451	+158	4,968	1,485
1984	29,004	31,660	-2,602	+1,236	5,323	298
1985	**41,394**	**36,348**	**+5,087**	**-8,321**	**5,889**	**-1,030**
1986	47,420	41,371	+6,114	-5,072	5,725	527
1987	50,203	44,171	+5,995	-2,851	7,940	4,672
1988	58,575	55,932	+2,728	-6,208	6,705	1,609
1989	68,067	65,179	+3,108	-4,345	6,904	9

Source: Leape (1991)

The table highlights the severe pressure the balance of payments constraint imposed. Reserves were low by the time of 1985[11]. By the end of 1984, South Africa gross reserves (holdings of gold and foreign currency) equalled R5.3 billion. Net reserves (gross reserves less foreign liabilities held against reserves) were all of R298 million, or a full 3 days of imports (Leape, 1991).

3.3 The new financial rand system

In contrast with the 1961 arrangement, the intention with the 1985 financial rand was specifically to create two currencies. There were two tiers, a commercial rand and a financial rand. Any applications to move money in or out of South Africa

[11] See figure below in Appendix 1

will pass through one of the two tiers. The commercial rand: rate for trading commodities in South Africa, and all imports and exports paid with this rand in addition to a number of other transactions (e.g. dividends, royalties and licence fees). In addition, the commercial rand was a dirty float.

One important component was to manage foreign exchange reserves through gold sales. It was required that the entire output of the gold-mining industry had to be sold to the SARB within one month of production. The SARB played the role of agent for all international gold sales, gold swaps, and internationally currency operations entailing gold. A complex system of export and import permits for many goods, administered jointly by Reserve Bank and Department of Trade and Industry existed.

The financial rand, applied to four categories

- Investments in South Africa by non-residents, covering purchases of equities, bonds etc. (Loans go through commercial rand system).
- Capital imported by immigrants, i.e. those moving to South Africa
- Proceeds of the sale of South African securities when they are repatriated by non-residents, i.e. conversation rate that applies is the financial rand conversion rate
- Capital transfers from South Africa to foreign destinations

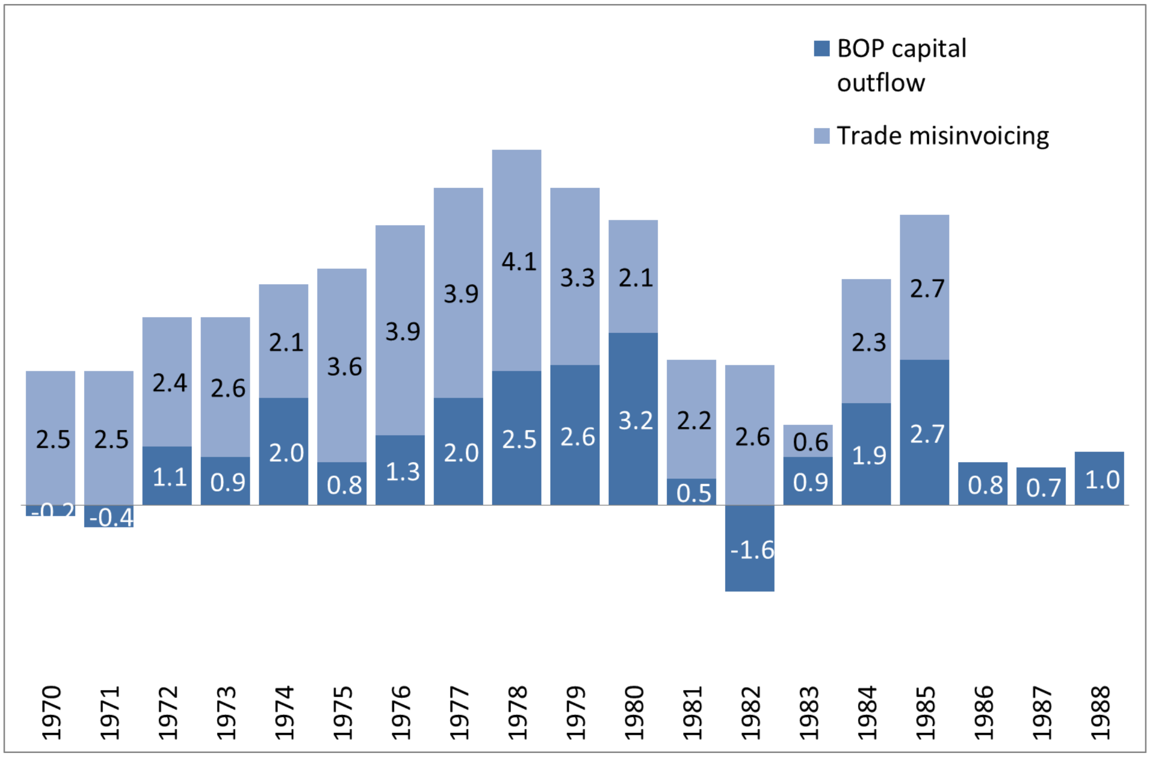
3.4 Capital flight

Though extraordinarily onerous, the regime could not halt continued capital flight, although the more onerous regime after 1985 assisted in reducing most flight (although this may have been because the exchange control system was widely flouted[12]. Estimates on the extent of capital flight vary depending on the type of methodology used. Using a balance of payments approach, about US$12.4 billion

[12] The Minister of Finance announced two Voluntary Disclosure Programmes, one in 2004 and related Tax Amnesty Process and one in 2010. The total led to R68.9billion being declared of total assets from 43681 applicants.

over the 1970 to 1988 period, and in addition trade misinvoicing accounted for another (Kahn, 1991).

Figure 3 Capital flight, % GDP (1979-1988)



Source: Adapted from Kahn (1991: Annex B). The author details the methodology used in the different approaches, noting that the BOP capital flow and Trade misinvoicing estimates are not alternatives estimates, but rather complementary, and should be added together.

4 Consequences

Many of the effects of exchange controls lingered beyond the end of apartheid, particularly the autarky brought upon by the debt standstill. Indeed, some of the controls remain, and understanding both intended and unintended consequences of the system is thus important. The following possible consequences have been identified:

- **Reduced foreign investment**. By making it the repatriation of funds both difficult and expensive for non-resident investors, exchange controls almost certainly deterred foreign direct investment (Farrell & Todani, 2004). Investors into South Africa had to buy South African assets at the commercial rand rate, but could only exit at the financial rand rate. Even after the abolition of the dual exchange rate system in 1993, and with it the removal of controls on non-residents, non-resident investors still were inadvertently caught inside the exchange control net, and arguably still are (see, for example, National Treasury 2011)..
- **More concentrated industry**. In 1985, one company, Anglo American, controlled just over half of the Johannesburg Stock Exchange (see Table X), and even in 2002, in about half of the main industrial products, the largest four firms accounted for more than half of output (Chabane, Machaka, Molaba, Roberts, & Taka, 2003), or, put another way, a quarter of production was controlled by four firms.

Exchange controls did entirely create this problem – as noted above, the high tariff barriers and lack of international competition due to sanction certainly played a part, but trapping domestic capital within South Africa encouraged firms to invest in non-core activities. This created huge conglomerates, with interests in multiple industries.

Table 6 Largest conglomerates in 1985

	1985	1990	1994	2002
Anglo American Corp	53.6	44.2	43.3	25.4
Sanlam	12.2	13.2	10.5	4.2
Liberty Life	2	2.6	7.2	3.2
Rembrandt / Remgro	3.8	13.6	13	13.7
SA Mutual / Old Mutual	10.6	10.2	9.7	13.3
Anglovaal	2.1	2.5	3.6	
Four largest	80.2	81.2	76.5	56.6

Source: Adapted from (Chabane, Machaka, Molaba, Roberts, & Taka, 2003)

- **Reduced growth in export-oriented manufacturing**. The stringent system of exchange controls, and accompanying trade boycott may have been a complicating factor in stimulating an export-oriented manufacturing sector. Indeed, the 1980s were a "lost decade" for industry, with manufacturing growth and, crucially for a labour-surplus economy, employment growth substantially curtailed (McCarthy, 1994).
- **Increased exchange rate volatility for foreign investors**. By creating a different regime for resident and non-residents to trade in rand, the consequence may have been to discourage a proper functioning foreign exchange market.
- **Slow development of a fully functioning forward market**. At the very least, by 1993, it was clear that the foreign exchange forward market was substantially underdeveloped (Ramos, 1991), and it has been the stated objective of successive exchange control liberalisations to assist in develop this market.[13]
- **Lack of diversification for pension funds and other institutional investors**. The controls on residents extended to institutional funds, such as pension funds. These were forced to invest only in South African assets, making it impossible for trustees to diversify risk. Moreover, given the high concentration of mining shares on the JSE, pension fund assets became highly correlated with the resources cycle[14].
- **Captive investment base**. The flip side of the diversification is that large South African corporates were guaranteed a captive source of capital, and so did not

[13] The widening of the net open forward position following the Asian crisis was, in part, due to the Reserve Bank carrying losses from the state-guaranteed forward market.

[14] The abolition of this control was one of the earliest after apartheid. In 1995, institutions were able to use an asset swap mechanism to invest in offshore assets (Farrell & Todani, 2004). Since then, the restriction has been further liberalised. The most recent was the decision in December 2011 to allow pension funds to have offshore assets up to 25 per cent of their total assets, with higher limits for other institutional investors. This is no longer an "exchange control", but rather a macroprudential limit aimed at limiting pension fund exposure to foreign risk (e.g. currency and sovereign risk). The limit is also variable, which provides some scope for reduction in the event of a major exogenous shock.

compete with international firms for capital, creating internationally uncompetitive South African corporates[15].

- **Reduction of the tax base**. The figures quoted above, and the proceeds from the voluntary disclosure programme, highlight that wealthy South African residents and some companies were quite capable of exiting capital from South Africa, and investing it offshore. Income from this capital was almost certainly not declared in South Africa and essentially existed outside the tax net.

Some possible positives can also be identified. The onerous controls introduced in 1985 were designed to disincentivise foreign investors from wholesale disinvestment, and may have delayed the implosion of the system. It is questionable whether it the short-term benefit of stopping disinvestment outweighed the medium- to long-term impact of an increasingly distorted and isolated economy.

5 Conclusion

Exchange controls were part of a complex system of maintaining some financial stability during apartheid, particularly as the system faced increased sanctions and deteriorating external and internal conditions. However, the medium- to long-term impact of the controls was potentially substantially negative, encouraging the increased isolation of the apartheid state. The attempt to close off the economy to protect the state may have had the perverse consequence of leaving the economy structurally uncompetitive, creating a fragmented foreign exchange market, and leaving the economy more fragile when democracy came in 1994. This legacy lasted a number of years into the new dispensation.

[15] In addition, the high tariff barriers to maintain the balance of payments surplus had arguably the same result. There is a relatively large strand of literature (see for example Weeks or Sender Standing and Weeks) that argues that the post-apartheid economic liberalisation was inappropriate, particularly following the Growth, Employment and Redistribution policy announced in 1996. A detailed discussion of the effects of the post-Apartheid liberalisation period is, however, outside the scope of this paper.

For policymakers today, many remnants of the exchange control system remain. Understanding the context of why the particular parts of the system were introduced as they were helps design future policy. The design of the future relies on us understanding the past.

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