Industrialisation under Apartheid: the case of the Industrial Development Corporation

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Abstract

This paper discusses the evolution of the Industrial Development Corporation (IDC) and its role as an institution of high-speed growth in promoting industrial development under Apartheid. Yet, the establishment of the IDC in 1940 predates Apartheid with a very specific mandate of financing new industries and manufacturing enterprises in order to stimulate domestic manufacturing and lessen the country’s dependence on imported goods. Of particular interest, is the role played by the visionary leadership of the organisation’s first chairman, Hendrik van der Bijl, and managing director, Jan van Eck. The IDC’s mandate was soon adapted to include direct investments into industries, which the private sector was either unwilling or unable to enter, specifically, those industries considered of national strategic importance by the government. This amendment effectively allowed the IDC to become an institution of high-speed growth in the South African context.

Introduction

By drawing on its historical progression, this paper examines how the IDC, as South Africa and the African continent’s premier development bank, pursues its mandate of industrial and economic development in the face of a fast changing and challenging global economy. It first looks in some detail at the historical development of the IDC and its role in the South African economy focusing on the arguments put forth for its establishment and the nature of its mandate. A decade-by-decade analysis is provided of the IDC’s impact on the South African economy under Apartheid rule. Then it is argued that the IDC conforms to Chalmers Johnson’s (Johnson, 1982) description of a high-speed growth institution at least in the South African context. This is followed by reference to two scholarly works, which critically examined the IDC’s role as a development finance institution within the South African context. Finally, the IDC’s conditional distress funding facility is unpacked as a case study of how the organisation anticipates and responds to the needs of its markets.

The IDC as an institution of “high-speed growth”

Chalmers Johnson (1982, pp. 198-241), in his influential work on the role of the Japanese Ministry of International Trade and Industry (MITI) in effectively directing the industrial development of the Japan refers to the importance of establishing institutions of high-speed growth. Whilst an overall comparison between the development of the Japanese and South African economies would be

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completely misplaced, the IDC would appear, given its historical record of accomplishment, to conform to Johnson’s description of a high growth institution. Johnson writes:

> “The tools in the hands of the bureaucrats included control over all foreign exchange and imports of technology, which gave them the power to choose industries for development; the ability to dispense preferential financing, tax breaks and protection from foreign competition, which gave them the power to lower the costs of the chosen industries; and the authority to order the creation of cartels and bank-based industrial conglomerates…which gave them the power to supervise competition. This high-growth system was one of the most rational and productive industrial policies ever devised by any government… (Johnson, 1982, p. 199)”

In many ways, the IDC fits Johnson’s depiction of a high-speed growth. From its very modest beginnings, the organisation became an instrument of the country’s industrial development. It did not only respond passively to requests for funding by the private sector based on economic merit like a commercial bank would do; instead, it also undertook large-scale and risky projects, sometimes at the behest of the political authorities and sometimes of its own volition, developing its own projects when the opportunity arose to do so. It actively entered a diverse range of industries from petro-chemicals to shipping, either alone or in partnership with domestic or foreign parties.

The IDC also deployed a range of instruments in order to promote industrial development. For example, in the 1960s it developed export credit schemes to source new markets for South African manufactured goods. Other instruments include low interest loans, import credit schemes, equity investments, structured financing options and payment holidays. More importantly, the IDC adopted a long-term approach to its investment activities recognising that certain projects would not achieve profitability in the early years of operation. The organisation was also flexible in its approach to assist its business partners during temporary downturns in the business cycle.

Answerable to political oversight, the IDC operates within the ruling political framework by not only adapting its mandate to the new political realities, but also pre-emptively making inputs into policy formulation. Yet, at the same time, successive IDC leadership has been careful to keep the organisation’s operational independence, lest its governance succumbs to undue political influence. The IDC has also been surprisingly profitable, its big-ticket investments in petrochemicals, mining and minerals beneficiation continues to pay off handsomely. Notably, 1954 was the last time the IDC received funds from government coffers.

Thus in the African context, it could be argued that no other state institution or development bank has had such a profound influence on its country’s economic development, particularly in the development of secondary industries, as the IDC has done. Whilst other countries on the African continent are beginning to emerge as economic centres in their own right, South Africa continues to be Africa’s largest economy by GDP. This can be attributed in no small part to the decades of
industrial and economic development undertaken by the IDC directly or indirectly; thus conforming to Johnson’s description of a high-speed growth institution.

**Arguments for the establishment of the IDC**

Following South Africa’s successful transition from Apartheid rule to democracy in 1994, the new elected democratic government inherited a myriad of state-owned enterprises, including the Industrial Development Corporation (IDC), a development bank to promote industrial financing, established in 1940.

The idea of establishing the IDC was largely the brainchild of two industrious Afrikaner engineers and civil servants, Dr. Hendrik van der Bijl and Dr. Jan van Eck (Cartwright, 1971, pp. 8-9). Van der Bijl is also largely credited with establishing the South Africa’s first state-owned electricity utility, Eskom; the country’s largest state-owned steelworks, Yscor, later bought by global steel giant ArcelorMittal; and various other industrial ventures. Van Eck played a leading role in the establishment of South Africa’s first state-owned synthetic coal-to-fuel plant, SASOL, and was a leading authority on powdered coal-fired boilers (Cartwright, 1971, p. 7).

Van Eck recognised that one of the major obstacles to local enterprise development was the lack of long-term investment capital available for starting domestic enterprises. In addition, the emerging mining houses in the country preferred investments in gold and diamond mines and were sceptical of the country’s ability to develop secondary industries. The South African public were also highly prejudicial against domestically manufactured products and preferred imports.

In 1939, Van Eck was appointed chairman of the Industrial and Agricultural Requirements Commission. The Commission published a series of papers that became known as the Van Eck report, which investigated South Africa’s agricultural and industrial potential. An outcome of this report was the establishment of the Social and Economic Planning Council under Van Eck’s leadership. Forthwith the council was tasked with developing and coordinating a national planning programme for the South African economy (Cartwright, 1971, p. 8).

It is important to note that the political context of the time preceded the ascendency of Afrikaner rule in 1948, when the National Party came to power and ruled for the next 46 years. During this period, South Africa was formally a Union of the British Empire. Afrikaners, proud of their pastoral roots,

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3 Afrikaners are mainly descendants of Dutch colonialist and French Huguenots fleeing persecution in Europe during the 17th century.
4 The Union of South Africa formally ceased in 1961, when the country officially became an independent republic, henceforth the Republic of South Africa.
were preoccupied with their political and economic future, and saw themselves as an oppressed nation under British rule. Young unskilled Afrikaner men migrated in droves to cities from their rural communities in seek of opportunity and employment. However, they found no work in the cities; many of them ended up in shantytowns on the periphery of South Africa’s emerging cities like Johannesburg. This triggered what was known as the ‘poor white’ problem, which affected a large section of the Afrikaner population.

Fiercely proud and nationalistic, Afrikaner intellectuals such as Van der Bijl and Van Eck set out to solve the unemployment crisis that deeply affected their fellow countrymen. Thus:

“In 1939, Dr. Van Eck was worried by the hiatus in the economy which his investigation revealed. Far too high a proportion of manufactured goods were being imported from other parts of the world. Machinery, timber, textiles and a vast range of household goods all came from abroad. Yet there was unemployment and a ‘poor white’ problem in the land (Cartwright, 1971, p. 8).”

Van Eck approached Van der Bijl and then Prime Minister, Jan Smuts, directly with a plan for the government to facilitate industrial financing with the establishment of a development enterprise. Consequently, through the Industrial Development Act of 1940, the Industrial Development Corporation (IDC) was established with an authorised share capital of £5 million (R730 million in 2002 prices) with the objectives of:

“…to facilitate, promote, guide and assist in the financing of new industries and industrial undertakings and schemes for the expansion, better organisation and modernisation of, and the more efficient carrying out of, operations in existing industries and industrial undertakings, to the end that the economic requirements of the Union (South Africa) may be met, and industrial development within the Union may be planned, expedited and conducted on sound principles (Cartwright, 1971, p. 9).”

At the time, there were two major abjections to the Act; some political constituents complained that the Act would prejudice rural development, whilst academics saw it as an attack on free markets. However, the drafters of the Act were careful to protect the organisation against any political interference or undue influence from any special interest groups. In addition, it was envisaged that the IDC would consider any application for funding “strictly on its economic merits irrespective of all other considerations whatsoever (Cartwright, 1971, p. 9).” The IDC was also prevented from committing an unduly large portion of its capital to any one venture.

**Extending the IDC’s mandate: the case for strategic state intervention**

Initially, the founders of the IDC envisaged that the organisation would in no way compete with the private sector or attempt to take away business from commercial banks. It should be noted that the establishment of the IDC coincided with the beginning of the Second World War. South Africa as a
dominion of Britain aligned with the Allied forces against Germany and Japan. Consequently, the
country was in a state of preparedness for war. The prime minister put Van der Bijl in charge of
coordinating the country’s industries in support of the war effort. Van der Bijl was careful to not to
incorporate the IDC into the country’s war preparations. According to Van der Bijl to Van Eck:

“Your Corporation (IDC) does not, and will not, provide cheap money for the indiscriminate
establishment of industrial concerns which may lead to mushroom development and undesirable and
inefficient production methods. Every effort is made to develop initially those industries which will be
economic in peace time but which will supply an important need under the present emergency
conditions. It is not part of the function of your corporation to provide money for industries that are only
necessary for war purposes (Cartwright, 1971, p. 15).”

However, the realities of a war economy soon overtook Van der Bijl’s caution against the IDC
becoming involved in the war effort. In 1942, a serious shortage of tin plate developed putting the
country’s canning industries at risk. At the time, no government authority or agency could procure the
tinplate from overseas for civilian use. It would have required the introduction of a new act in
parliament to set up an agency to procure non-military supplies for civilian use during the war.

An amendment to the IDC Act was quickly rushed through parliament that would allow the IDC to
“with the approval of the State Governor-General, to establish and conduct any industrial venture
(Cartwright, 1971, p. 17).” This effectively gave the IDC wide raging scope to establish any venture,
whether in periods of war or peace. The IDC was no longer limited to supplying industrial financing
to the private sector. The 1942 amendment to the IDC Act provided the corporation with a mechanism
to establish any business in any industry at any time. As noted in Cartwright, the amendment
empowered the IDC:

“...the Corporation has been enabled, in circumstances where private enterprise is unable or unwilling to
finance and undertaking of national importance, to step in an take the initiative for its establishment
(Cartwright, 1971, p. 17).”

This amendment to the IDC Act, which was not reversed when the war ended, would have far-
reaching implications for the corporation. Whilst Van der Bijl initially favoured an independent IDC
free from any government influence, the amended Act made it possible forthwith for the South
African government to use the corporation as a funding agency for large-scale development projects
such as the country’s first coal-to-fuel petrochemical complex, Sasol and fertiliser production facility,
Foskor.

The IDC’s contribution to South Africa’s industrial structure, 1940 to 2000s

5 Cartwright also notes that during the 1940s several countries established development banks including
Argentina, Canada and Britain
The IDC celebrated its 70th anniversary in 2010. There can be no doubt that the organisation made a remarkable impact on South Africa’s economic and industrial landscape. With IDC intervention and support, many industries were established including textiles, petro-chemicals, minerals beneficiation and even the development of small industries. Table 1 gives a decade-by-decade account of the IDC’s economic contribution to the South African economy. Specific details of major projects during a particular decade are discussed further below.

**Table 1: The IDC’s economic contribution to the South African economy**

<table>
<thead>
<tr>
<th>Decade</th>
<th>Number of Approvals</th>
<th>Value (Decade’s Rands) Rand Million</th>
<th>Value (2002 Rands) Rand Million</th>
<th>% contribution to SA’s GFCF</th>
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<tbody>
<tr>
<td>1940s</td>
<td>130</td>
<td>16</td>
<td>1200</td>
<td>1.1</td>
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<tr>
<td>1950s</td>
<td>150</td>
<td>144</td>
<td>6200</td>
<td>2.5</td>
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<tr>
<td>1960s</td>
<td>770</td>
<td>540</td>
<td>18300</td>
<td>4.7</td>
</tr>
<tr>
<td>1970s</td>
<td>1300</td>
<td>2500</td>
<td>42500</td>
<td>5.4</td>
</tr>
<tr>
<td>1980s</td>
<td>N/A</td>
<td>6100</td>
<td>28300</td>
<td>3.1</td>
</tr>
<tr>
<td>1990s</td>
<td>2600</td>
<td>37200</td>
<td>56400</td>
<td>6.5</td>
</tr>
<tr>
<td>2000s</td>
<td>2902</td>
<td>58800</td>
<td>62500</td>
<td>3.2</td>
</tr>
</tbody>
</table>

However, it is important to note that the IDC was and continues to be primarily an instrument of the state for the purposes of industrial financing and the development of strategic national projects. Whilst the organisation operated as far as possible independently from state control, it did so within a particular economic framework determined by the state. This has been a feature of the IDC in the past and continues so in the present.

**The 1940s**

The corporation’s activities kicked off to a slow start. In 1941, the IDC extended its first loan of £1 500 (R220 000 in 2002 prices) to a home bakery (IDC Annual Report, 2002). Given Van Eck’s interest in applied economics research, the corporation early on adopted an evidence-based approach, which continues until this day, into the potential opportunities the IDC could pursue.

The research pointed to the IDC could play a meaningful role in starting up industries geared towards meeting the country’s basic needs, food, clothing, housing and transport. During this period, South Africa’s import-propensity for relatively easy to manufacture goods was high. Virtually all wool and cotton textiles were imported. The country also imported timber, brass, taps, fittings, basins, baths, flooring, carpeting and all manner of building materials. Motor cars and accessories (parts) such as
batteries, tyres and spark plugs were mostly imported from the USA, Britain, France and Germany (Cartwright, 1971, p. 17).

Consequently, in 1945, one of the earliest projects undertaken by the IDC was a joint venture with the Masonite Corporation of the USA to manufacture timber for building purposes. This led to further investments into the beneficiation of timber; in 1951 a rayon pulp plant, the South African Industrial Cellulose Corporation (Saiccor), was established with the assistance of British and Italian industrialist (Cartwright, 1971, p. 20).

The lack of domestic textile production was also one of the first opportunities for import substitution that caught the attention of the industrial planners at the IDC, as almost 95% of all textiles were imported. This was in line with the IDC’s directive to support the establishment of basic needs industries. Consequently, in 1941, the IDC’s first venture was in a wool washing and blending plant, which were used to manufacture 6 million blankets for the army (Cartwright, 1971, pp. 57-62).

The IDC then branched out further into the textile industry by establishing a cotton textiles plant in 1945. The plant was purposefully situated close to the ‘border’ of South Africa’s largest Black homelands in order to take advantage of a ready pool of Black labour. This venture was an outcome of van Eck’s research into import substitution industries during the war years. The absence of any other local producers of these products would put the IDC factories in a highly favourable position, which would serve both the economic and political needs of the country.

The 1950s

Having successfully survived its first decade in operation, the IDC greatly increased its scope of operations during the 1950s. The 1950s began under a new political order, which would have a profound impact on the country’s political and economic direction over the next fifty years. Afrikaner nationalists had come to power in 1948 with a mandate of separate development or Apartheid. Forthwith, the state’s approach to economic development was anchored in uplifting Afrikaners and other European (White) communities.

The new government prioritised the development of large-scale strategic projects considered too big to undertake by the private sector, and probably not very profitable during their early years of operation (Cartwright, 1971, p. 23). Two major national strategic projects were established by the IDC during the 1950s, the South African Coal, Oil and Gas Corporation (Sasol) and the Phosphate

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6 Homelands were artificially designated ‘independent’ tribal lands by the Apartheid government, which in reality were nothing more than tribal reservations for Blacks largely dependent on the political and economic patronage of the Apartheid authorities.
Development Corporation (Foskor). This was also the IDC’s first ventures into the country’s rich mineral base.

The arguments for establishing these plants were both political and economic; Apartheid as an institutionalised political and economic system of racial discrimination was attracting increasing international criticism. Consequently, the government worried that any disruption to the supply of imported oil and phosphates for fertiliser production could bring the country to a halt, which could force it to capitulate to international pressure.

In addition, South Africa’s rich coal and phosphate deposits could be mined quite cheaply. These industries were also ideally suited to produce a range of chemical by products, which could be used in domestic manufacture to replace imports (Cartwright, 1971, p. 24). The funding for these two projects came directly from the treasury in exchange for shares.

These two projects brought additional benefits two the country in terms of skills and technological innovation. Sasol’s large petrochemical complex, located near the country’s coalfields contributed to the training of a generation of engineers and fuel technologists. These skills would be further utilised, when the government commissioned major expansions to Sasol’s petrochemical complex in the 1970s. Sasol also gave rise to a host of secondary industries, which contributed to the expansion of the country’s manufacturing sector.

In addition, the country also developed a unique patented process to increase the phosphate yield of the country’s phosphate deposits. Associated with the phosphate venture was also a copper venture, the Palabora Mining Company, because of the phosphate ore body contained “copper, magnetite, vermiculite, zirconium and other minerals (Cartwright, 1971, p. 26).”

Towards the end of the 1950s, the IDC entered completely new territory. The corporation entered the shipping industry by acquiring an interest in USA shipping company, the South African Marine Corporation (Safmarine). Interestingly, Hendrik van der Bijl, now deceased, was listed as a founding member of Safmarine. Van der Bijl believed it important for South Africa to establish its own merchant fleet and sought a partnership with the USA’s States Marine Corporation. In 1959, States Marine was forced to relinquish its shares in Safmarine because it stood to lose a USA government subsidy for having an interest in a foreign shipping entity. The IDC board decided to purchase States Marine’s interest in Safmarine justified as follows by Van Eck:

“It is my view that an efficiently operated shipping industry is an essential factor in the economic life of our country, especially in these days of increasing governmental subsidisation and control of shipping throughout the world (Cartwright, 1971, p. 30).”
The 1960s

The IDC wasted no time in expanding its new shipping business. The corporation doubled the fleet size of Safmarine over the next decade from 11 to 23. The Safmarine vessels were deployed to ship bulk commodities from South Africa including pig iron, sugar and fruit. Safmarine further diversified its operations into air transportation. Expanding into the shipping business has fostered a host of new employment opportunities including stevedores, clearing and forwarding agents, seamen and engineers (Cartwright, 1971, p. 32).

During this decade, the IDC would also increase its global reach. The organisation developed a plan to provide export credit finance for South African manufacturers. The export credit scheme was launched with reserve bank approval in 1960. The scheme offered two types of facilities for exporters: financial credits and revolving credit lines, and supplier’s credits. By 1965, the IDC has extended credit facilities for numerous projects in diverse countries, which included Angola, Iran, Argentina, Brazil, Congo, USA, Israel, Portugal, Bolivia and Chile. Interestingly, the IDC extended credit facilities to Banco Nacional de Desenvolvimento of R3.6 million (R122 million in 2002 prices).

Additional ventures in the 1960s included the establishment of an automotive component plant, a phosphoric acid plant, established the Southern Oil Exploration Corporation (Soekor) exploring for oil of the South African coast, established the South Atlantic Cable Company to manufacture and lay an underwater telecommunications cable between Cape Town and Europe. In addition, the IDC established Atlas Aircrafts to build training aircrafts and to service different types of aircrafts. The IDC also established a tea plantation operation, Sapekoe, which developed tea estates and produced South Africa’s first homegrown tea.

The 1970s

Two major commodity price shocks affected the South African economy during the 1970s. The OPEC oil crisis of 1973 had a contradictory impact on the South African economy. On the one hand, the crises lead to a rising gold price, which favoured the country’s trade balance; on the other hand, high oil prices lead to inflationary pressures in the economy. Thus, because of the gold price windfall, gold miners granted long overdue wage increases in one of the country’s largest employment sectors.

For the most part of the 1970s, the IDC, together with its partners, Rand Mines and the Swiss-based aluminium producer, Alusuisse went ahead with plans to establish an aluminium smelter in South Africa. Although South Africa had no bauxite reserves for the manufacture of aluminium, the country’s relatively cheap electricity it was reasoned, justified the establishment of an aluminium
smelter. The smelter complex was located in Richards Bay, a small coastal town on the country’s north-eastern coast.

The IDC established a further minerals venture, Richards Bay minerals, just north of Richards Bay aluminium smelter to mine titanium, rutile, and zirconium for export markets. Further inland, a manganese operation, Delta Manganese, was established for the production of electrolytic manganese. In the meantime, major expansions to Sasol’s petrochemical complex were undertaken with the establishment of a second and third refinery.

However, given the inflationary pressures of the time, the IDC adopted a more cautious and selective approach to industrial financing. Yet, the amount of approvals almost doubled from the previous decade underscoring the organisation’s importance in the formation of small and medium enterprises, whilst at the same time pursuing large projects of strategic national importance.

During this time, the country’s Department of Trade and Industry was deeply occupied with a development program for the country’s nascent motor industry, further necessitating the organisation to commit funding for the establishment of car parts manufacture. Investments were also made in pulp and paper manufacture.

The 1980s

The 1980s would prove to be a politically tumultuous decade for South Africa. The Apartheid government came under intense political pressure, both internally and externally, to move towards democratic rule. In the 1986, the United States Congress vetoed President Reagan and instituted economic sanctions against South Africa, which lead to massive capital flight and large-scale disinvestment from USA companies located within South Africa. Internally, a sustained campaign of civil disobedience was underway as ordinary Black citizens in the country clamoured for radical political change.

Consequently, South Africa’s economic growth potential went into decline as political and macro-economic instability took its toll. Taxes rose, capital for investment either dried up or came at a significant premium given the country’s international pariah status. Ironically, this unstable environment only served to intensify the IDC’s role as industrial financier. Approvals exceeded those of the previous decade, notwithstanding, the transfer of the IDC’s rich small business portfolio to the newly formed Small Business Development Corporation (SBDC).
Despite the tight economic conditions, investments in pulp and paper, chemicals, glass, metal products, electrical machinery and car parts continued unabated. Motor industry investments in particular increased markedly with the establishment of a diesel engine facility for heavy vehicles and tractors, and an auto catalytic converter works for motor vehicles. Heavy forging works was also established for steel and high quality aluminium engine blocks.

Whilst the ‘poor White’ problem that so occupied Afrikaner nationalist during the 1930s and 1940s was largely resolved by the 1960s, the social and economic conditions of Black communities continued to deteriorate. Thus, the on-going political instability during the 1980s was but a symptom of the social and economic backwardness and high levels of unemployment prevalent in Black communities. Subsequently, the IDC looked to establish a number of agricultural ventures in the hope that it could create large scale job opportunities, especially for unskilled Black workers. The Sapeko tea venture was expanded into coffee production, a plant oil production facility was established, vineyards, date and cherry farms were also established.

Towards the end of the 1980s, the government also decided to develop the country’s offshore gas fields. Accordingly, despite international sanctions, the IDC participated in the construction of a gas platform and coastal refinery largely with the assistance of foreign skills.

The 1990s

The 1990s would prove a watershed decade in the evolution of South Africa’s political landscape. In February 1990, the Apartheid government announced the unconditional release of all political prisoners, including liberation icon, Nelson Mandela. With the collapse of the Iron Curtain, the Apartheid government signalled its willingness to negotiate a new democratic dispensation. The negotiations lasted for four years; eventually in 1994, the country’s first democratic elections were held, which for the first time since colonial settlers set foot on its shores in 1652, would grant universal suffrage to the country’s Black citizens.

The left leaning African National Congress (ANC), under the Presidency of Nelson Mandela, was overwhelmingly voted into power by the majority of the country’s citizens. At the time, there was great uncertainty and mistrust about the political economy that would emerge after the ANC came to power. Numerous workshops and seminars by various interest groups including academics, labour, business lobbies and civil society formations were held to achieve some kind of accord about a future economic framework for the new democratic South Africa.
In 1994, the ruling ANC put forth an economic policy framework, the Reconstruction and Development Programme (RDP). The main aim of the RDP was to reverse the vast socioeconomic backlog Black communities were faced with when Apartheid ended. Whilst the RDP emphasised the need to address the social backlog through increased spending on social services and infrastructure, it advocated quite a fiscally conservative approach to government spending based on lowering government debt, reducing taxes and containing fiscal spending. Paradoxically, it also promoted trade liberalisation arguing that the domestic manufacturing sector operated in a protectionist environment under Apartheid and needed to be exposed to global competition in order to improve productivity and efficiency.

Barely, two years later in 1996, the RDP was superseded with the more neoliberal oriented Growth, Employment and Redistribution (GEAR). The primary thrust of GEAR was macroeconomic stability by lowering the fiscal deficit. It was reasoned that a lower fiscal deficit would increase investor confidence in the country. Gear also advocated further integration into the global economy through tariff reduction and industrial restructuring.

As a state owned institution, the IDC had to adapt quickly to the new constitutional and political order. The organisation recognised that the end of South Africa’s international isolation would also require that the country’s economy become more globally integrated. Consequently, the IDC adopted a new strategic direction in terms of industrial development underpinned by the need for the country’s industries to become more export competitive and to attract foreign investment as advocated by GEAR.

The end of international isolation also provided the IDC with new opportunities to access funding on international capital markets. The corporation continued its investments in minerals beneficiation with the establishment of a stainless steel plant and a hot rolled steel plant aimed at export markets. A second aluminium smelter was established in Richards Bay and further investment in titanium production facility.

In addition, further investments in secondary industries were also made in a steel processing plant, an acrylic fibre plant, aluminium mills and expansion of Foskor’s fertiliser plant. Aluminium production was also expanded into neighbouring state, Mozambique, together with BHP Billiton. The IDC together with partners Anglo American, De Beers and Mondi also established forestry plantations. Other ventures included the establishment of cashew, pistachio, macadamia, walnuts and a plant to manufacture sugar based chemicals. The IDC also supported tourism ventures and introduced a number of financing schemes aimed at export promotion and plant modernisation.
The IDC: critical perspectives

The advent of democracy brought about the freedom of information guaranteed under the country’s new constitution. Serious scholars of the social sciences in particular seized the opportunity to research the archives of the state and its institutions, hitherto inaccessible, to critically examine the evolution of the Apartheid state.

Two studies in particular critically examined the role the IDC played in South Africa’s economic development. (Clark, 1994) As noted elsewhere, the IDC was established during a time when Afrikaner nationalism was on the rise. Therefore, it is reasonable to assume that the plight of poor Whites, Afrikaners in particular, was foremost in the minds of the founders of the IDC. Van Eck bemoaned the high level of imports in the face of massive white unemployment.

It should be noted that under Van Eck, the IDC at the time was greatly influenced by the views of the Social and Economic Planning Council (SEC). The SEC proposed the establishment of consumer goods industries to take advantage of cheap Black labour especially in rural locations. Establishing factories in rural locations would also help stem the flow of Blacks to urban areas in search of employment (Clark, 1994).

Commenting on the establishment of the Sasol coal-to-oil project, Clark argued that whatever the reasons; perhaps anticipating increasing international isolation over Apartheid in the future and/or as a symbol of Afrikaner technological prowess, the oil-to-coal project became a strategic priority for the Nationalist government. Moreover, instead of seeking a private partner, the government committed to funding the project itself through the IDC. It was clear that the government wanted to exercise maximum control over the SASOL project as it evolved.

A private sector partner, it was reasoned, could potentially derail the SASOL project either by demanding a continuous stream of dividend payments or by not staying the course during the crucial start-up phases of the industry. In many ways, SASOL was the classic infant industry needing the necessary support and space under the umbrella of government protection. There was one other benefit that complete government ownership provided, control over prices. With government as sole shareholder, prices could be kept as low as possible in support of any economic or political objectives.

A similar pattern was followed in the establishment of Foskor. Up until then, phosphate used in the manufacture of fertiliser was mostly imported. With the discovery of large phosphate deposits in Phalaborwa, the government deemed it in the national interest that a state-owned mining company take
control over the mineral resource. As is the case with SASOL, the IDC proved the ideal vehicle for such a venture. In this regard, IDC chairman van Eck also realised that in contrast to the organisation’s original mandate of establishing light manufacturing industries to exploit cheap Black labour, establishing large capital-intensive enterprises came with none of the labour cost difficulties, whilst providing employment mainly to the skilled White population.

This shift in focus by the IDC towards more capital-intensive upstream production is the subject of an interesting study by Fine and Rustomjee (1996) of South Africa’s economic development titled; “The Political Economy of South Africa: from Minerals-Energy Complex to industrialisation”. The authors argue that following the post-war period the South African economy never managed to fully diversify its industrial base, which could have increased the employment absorption capacity, as is the case with the successful Asian economies of South Korea and Taiwan (Fine & Rustomjee, 1996).

Instead, production became increasingly concentrated in capital-intensive upstream industries centred on the country’s abundant minerals endowment and the availability of cheap energy as Escom expanded its generation capacity. Moreover, the minerals-energy complex (MEC) must be seen as a system that facilitated private capital accumulation as state-owned enterprises brought down the cost of production of the private sector (Fine & Rustomjee, 1996).

Crucially, government policy with respect to the establishment and the role of state-owned enterprises and the support and protection it afforded infant industries such as SASOL and Foskor, underpinned this economic trajectory. In addition, the post-war industrial path of the South African economy hugely benefitted White workers as racist policies of job reservation relegated Black workers to an industrial underclass (Fine & Rustomjee, 1996).

These studies provide a necessary and balanced perspective of the IDC as an institution of economic development under a political system, which the General Assembly of the United Nations declared a “crime against humanity” in 1966. The IDC was not a politically neutral in this system. The organisation was instrumental and actively pursued pushing Apartheid’s economic agenda. Van Eck confirms this position in his chairman’s statement in the IDC’s 1966 annual report. Expressing his regret at the assassination of prime minister, H. F. Verwoerd, van Eck says:

“Dr. Hendrik Frensch Verwoerd was assassinated in the House of Assembly on 6th September 1966. The Directors of the Corporation and every member of its staff mourn, with the Nation, this tragic event. So much of the Corporation’s work was intimately associated with the implementation of policies of which the Prime Minister had been the architect (emphasis added). His inspiration was a driving force in the development of South Africa and his encouragement and sympathy for the establishment of activities which would lead to greater well-being of every section of the republic (sic), have made a place for him in History.” (IDC Annual Report, 1966)
Under van Eck’s chairmanship, the IDC became a primary force in the Apartheid government’s decentralisation policies. The IDC invested heavily in the so-called border areas ostensibly to promote industrial employment among “Bantu” populations in the homelands, so that they may “enjoy a better and fuller life than could be supported by a substantially higher wage in a heavily concentrated urban area.” (IDC Annual Report, 1964).

Conclusion

This paper sought to unpack the evolution of the IDC and its impact on the South African economy since its establishment in 1940. Besides providing funding to the private sector for industrial ventures, particularly small and medium enterprises, the IDC also undertook a number of large-scale projects considered of national strategic importance. In addition, the IDC also developed various instruments to support industrial development. These included export credit facilities, low interest loans, subsidies and payment holidays. Yet, the organisation was also a key Apartheid institution, supporting in particular decentralisation policies by establishing various so-called “border industries” aimed at keeping Blacks confined to homelands. Nevertheless, it is argued here that the IDC had a profound impact on the industrial development of the South African economy fitting the description of a high-speed growth institution, at least in the African context.
References:


Industrial Development Corporation of South Africa Limited. *Annual Reports 1940-1990*.