

The Washington Times

South Africa risks economic destruction in seizing white-owned farms, analysts warn

Ben Wolfgang

August 22, 2018

South Africa faces potential economic calamity if it moves ahead with the seizure of largely white-owned farmland, analysts warned this week, as global investors reacted to a plan that government leaders say is necessary to correct decades-old wrongs of apartheid that left deep, systemic wealth inequalities and land ownership disparities along racial lines.

South African economic analysts and U.S. observers say the country risks inviting the kind of devastation that left neighboring Zimbabwe's economy in ruins after a similar forced expropriation scheme targeting some of the country's most productive farmland.

Officials with South Africa's state-owned Land Bank reportedly warned Tuesday that the plan could cost the government as much as \$2.8 billion in payouts because of a specific clause on expropriation of land.

Amid growing media coverage of the land grab program, the Trump administration faced growing pressure to speak and immediately suspend South Africa's status in the African Growth and Opportunity Act, which gives the country vital access to U.S. markets.

The looming economic storm stands in stark contrast with the pro-market promises of South African President Cyril Ramaphosa as he came to power in February and has repeated throughout his tenure. He vowed that the country's economy would grow and that he would bring newfound credibility to the South African government, even while calling the sharp inequality over land ownership a "festering wound" from the apartheid era.

"The landowners must not be afraid to embrace this process," Mr. Ramaphosa told critics in a parliamentary session Wednesday. "You say the landowners want certainty. I can tell you the people who are hungry for land also want certainty."

Since the end of apartheid in 1994, the ruling African National Congress has adopted a "willing seller, willing buyer" model under which the government buys white-owned farms for redistribution to blacks. But critics say the process is too slow and needs to be expedited.

Analysts warn that the redistribution of farmland will eviscerate trust in the country's government, lead banks to restrict lending because of uncertainty about government policies, call property rights into question and do nothing to help the millions of South African blacks living in poverty.

"It's challenging because there are no models, in the 21st century, that show taking one group's property away and giving it to another without compensation has not ended in populist armageddons — look to Zimbabwe and Venezuela," Garsen Subramoney, managing director of the South African consulting and business financing firm Rhanga, wrote this week.

Referring to the plan as "land expropriation without compensation," or EWC, he warned that disaster could be right around the corner.

"The 28 million black people living in poverty won't get wealthier through EWC. The capital and training they need will have taken flight. Banks might end up holding billions in debt on land that has been expropriated, and they won't be forthcoming with business development or home loans," he said. "All EWC will do is choke out the country. It'll shatter the trust the world has in South Africa's aspirations to be a modernizing state."

AfriForum, a lobbying group that says it represents the interests of South Africa's Afrikaner minority, stoked fears this month by publishing a list of 192 farms that it said were on a confidential government target list of possible expropriation. AfriForum officials have been particularly vocal about the damage the government's land plan could do to the country's reputation as a place to do business.

"History teaches us that international investors, regardless of what AfriForum or anyone else says, are unwilling to invest in a country where property rights are not protected," AfriForum CEO Kallie Kriel said in a video this month, calling on international investors to pressure the South African government to reverse course.

Land battles

Whites, which make up about 9 percent of the country's population, own nearly three-quarters of its farmland and half of its urban property, a 2017 government audit found.

Mr. Ramaphosa announced the plan this month, saying he would push to change the nation's constitution to allow the expropriation of farmland with no compensation. He also suggested that the plan could move forward even without a constitutional change.

"Black people want their land back," he said this week.

The expropriation process began in earnest this week as the South African government filed paperwork to seize two white-owned farms for a fraction of their estimated market value. The farms had been valued at about \$200 million, but the government intends to take them for just \$20 million.

"A comprehensive land reform program that enables equitable access to land will unlock economic growth by bringing more land in South Africa to full use and enable the productive participation of millions more South Africans in the economy," Mr. Ramaphosa said in a video message further explaining the move.

U.S. critics of the program urged the Trump administration to respond forcefully.

“President Trump should warn the South African government that if South Africa’s constitution is amended to allow for expropriation without compensation, South Africa will be suspended from the African Growth and Opportunity Act, as Zimbabwe had been,” Marian L. Tupy, a senior policy analyst with the libertarian Cato Institute, wrote Tuesday.

“Moreover, the U.S. Congress should hold hearings on the situation in South Africa, if the government of South Africa continues its destructive economic policies.”

Neither the White House nor congressional leaders have addressed the issue. The State Department had no comment when asked by The Washington Times this week.

Zimbabwe’s move in 2000 under President Robert Mugabe to seize white-owned farmland reportedly cost the country more than \$20 billion, producing drastic food and consumer goods shortages, skyrocketing inflation, and violent clashes between whites and blacks. Ultimately, food production dropped dramatically, the unemployment rate hit historic highs and the country had to suspend its own currency.

South Africa, the region’s largest and most developed economy, starts from a position of much greater strength, but observers say many of the problems seen in Zimbabwe could reappear in South Africa.

Reuters reported Tuesday that the state-owned Land Bank — a specialized institution offering services to the farming sector — said the government faces major losses under the proposal. Officials said that if the government fails to protect the bank’s rights as a creditor, it would be forced to pay out billions of dollars because of contractual agreements that specifically protect against expropriation.

“A poorly executed expropriation without compensation could result in the main sources of funding drying up as investors might not be willing to continue funding Land Bank in particular, or agriculture in general,” Land Bank Chairman Arthur Moloto told the news wire service.

African economic analysts also caution that foreign investment in South Africa could all but dry up if the plan moves forward. In addition, they warn that the nation’s overall stability — and its worldwide reputation — could suffer.

“Not only are they upset by the possible results of any violation of property rights, but they are also extremely concerned about the effect that the process of EWC will have on political and social stability, as well as on food security in the Southern African region,” said Alana Bailey, deputy CEO of AfriForum, a nonprofit group that says it is dedicated to protecting the rights of minorities.

So far, there has been little immediate impact to the South African economy, at least as far as the stock market is concerned. The Johannesburg Stock Exchange finished Wednesday up 940 points, according to Bloomberg, and remains roughly on par with where it was a month ago.