Gunning for profit.
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HONEST enough, was the verdict last week of an official inquiry into a multi-billion dollar arms deal. South Africa's government handled primary contracts cleanly, even if secondary ones were grubbier. A European bidder had already admitted to securing discounts on flashy cars for several politicians. One of these, Tony Yengeni, the ruling party's former chief whip, was arrested in October for fraud, perjury and corruption. And on November 16th, a local bidder for an arms contract, Shabir Shaik, was charged with illegally possessing cabinet secrets on the deal. His brother was the government's chief negotiator for the 1999 deal, but this week was suspended from his job.

More arrests are possible, but the government is sighing with relief. It kept a tight rein on the investigation, by replacing an independent anti-corruption team with three government agencies, and by reviewing the report before it was presented to parliament. That provoked some South Africans to cry whitewash. But no evidence of widespread corruption has been unearthed, and Thabo Mbeki dismissed the critics as racists.

Privately, some officials grumble that nearly $5 billion is a lot for a country with no obvious enemies to spend on arms. South Africa deploys peacekeepers, but they rarely need fighter jets, submarines or other ships.The deal's boosters retort that threats can appear from nowhere, that the equipment could be used against drug smugglers and that the costs will be spread over a decade.

Best of all, they say, the government persuaded the five European arms dealers who won contracts to promise big investments in South Africa. The sum the foreigners must either invest or spend on South African goods is three times as much as the weapons cost to buy: around $15 billion. Some contractors have agreed to buy components from South African firms. Others will set up unrelated businesses.
This week, for example, BAe Systems/ Saab, which won a $2.2 billion contract to supply fighter planes, opened a timber plant, which it says will generate $500m in exports in the next decade. The defence company must create "economic value" worth $8.7 billion, in various projects, by 2011. Other companies are investing in steel, mining-equipment, gold-chain, mohair-jersey and condom factories. They are also buying catalytic converters for cars and electronics for aircraft.

Measuring the value of all this will be tricky. The benefits are clearly substantial: foreign investment and the jobs it creates are needed. But sceptics fear that many of the gains are illusory. "There is no pixie dust--even in the military, somebody is paying," suggests Joel Johnson of the Aerospace Industries Association in Washington, DC. Either the contracting companies charged higher prices to cover the costs of their extra obligations, or European governments are quietly subsidising the arms sales. Offset investments rarely make money, according to Mr Johnson. What, after all, do submarine-makers know of timber or mohair jerseys?

Nonetheless, many defence analysts regard the deal as a shrewd one, and a number of countries, including Saudi Arabia and Hungary, have tried to copy it. At least some of the offset projects make commercial sense, and South Africa may have won good terms because the companies were hoping for more deals in the future. But it will take many years to assess the full value of the counter-trades, which will be scrutinised long after the eye-catching corruption claims are forgotten.