SQUEEZING APARTHEID

By Jennifer Davis
[Bulletin of Atomic Scientists, November 1993]

In 1959, Albert Luthuli, then president of the African National Congress, urged the international community to impose an economic boycott of South Africa to "precipitate the end of the hateful system of apartheid."

Although I have worked for sanctions since 1966, and believe they have been a potent force in the struggle for South African liberation, I cannot claim that they have been either swift or overwhelmingly effective. Nevertheless, sanctions did play an important role in bringing down apartheid and opening the government of South Africa to black South Africans.

The process has advanced so far that, on September 24, the African National Congress (ANC) called upon the world community to end its sanctions against South Africa.

When the ANC called for sanctions in 1959, South Africa's white-controlled economy was potentially very vulnerable to economic sanctions because it relied heavily on foreign capital. In the late nineteenth century, capital for the first growth industries, diamond and gold mining, came from Britain and Europe. U.S. capital arrived later, after World War II, and played a key role as manufacturing assumed increasing importance. In general, the 1960s and 1970s were boom years for the South African economy. From 1964 to 1974, foreign investment contributed 8 percent of the country's gross domestic investment. Foreign investment averaged 14 percent during the first five years of the 1970s and peaked at 24.5 percent in 1975-76, before collapsing to 2 percent during the unrest after Steve Biko was killed in 1977.

Foreign investment brought with it technical expertise. Some economists attributed much of South Africa's annual growth during the 1960s and 1970s (which averaged 4.5 percent and sometimes topped 5.5 percent) to this infusion of technical know-how. South African whites enjoyed a rapidly rising standard of living, a benefit denied to the country's black population.

By 1981, U.S. direct investment totaled more than $2.6 billion, nearly triple the book value of investments made during the previous decade. U.S. investors, like other foreign investors, had been drawn to South Africa by very high rates of return-29 percent in 1980 and 19 percent in 1981, several percentage points higher than the average rates of return worldwide.

When the U.N. General Assembly passed its 1962 resolution calling for a ban on exports to or imports from South Africa, three countries-Britain, the United States, and Japan- were absorbing 50 percent of South African exports; West Germany, Belgium, France, and Italy accounted for an additional 25 percent. South Africa's import sources were similarly concentrated. In 1966, Britain, the United States, West Germany, and Japan accounted for 62 percent of South Africa's total imports; Britain alone accounted for 28 percent.

Twenty years later, a report by the U.S. General Accounting Office revealed a very similar pattern. Most of South Africa's foreign trade was still with the United States, Britain, West Germany, France, Italy, and Japan. These countries sold South Africa 79 percent of its $8.2 billion worth of imports and bought 78 percent of its $12.4 billion worth of exports.

South Africa imports heavy machinery and high-tech goods like computers, chemicals, and oil. It exports raw materials, mainly minerals, and some agricultural products. Gold has always played a key trading role, often accounting for 40-50 percent of foreign exchange earnings. The fall in the price of gold from an annual average price of $613 an ounce in 1980 (and a high of $800 an ounce in 1984) to an average price hovering in the $350 range caused considerable pain.

As repression intensified in South Africa throughout the 1960s and 1970s, proponents of sanctions argued for international mandatory sanctions. However, only the U.N. Security Council had the power to impose mandatory economic, diplomatic, and cultural sanctions, as provided in Chapter VII of the U.N. Charter, and the three Western nations that are permanent members of the Security Council vetoed all such efforts. In 1977 these powers finally agreed to impose a mandatory arms embargo, but they continued to block all economic action.

It was left to citizens of the Western countries to take up the issue, and increasingly they did so, in a great variety of ways. The breadth of these campaigns and the long-term involvement of many thousands of people in an incredibly drawn-out struggle not directly their own is the more remarkable because it was achieved in the face of great obstacles. The media reported little on South Africa and less on anti-apartheid actions in small towns in Europe and North America.

There were anti-apartheid movements in all countries doing business with South Africa. Strong challenges were mounted to the British banks that stood at the center of South Africa's capital market. From the Netherlands, home of Shell Oil, which did considerable business with South Africa, came the impetus and direction for a powerful international "Boycott Shell" campaign. In many countries consumer boycotts were organized against easily identifiable products like South Africa-produced Outspan oranges.

In the United States, early protest after the Sharpeville massacre in 1960 focused on the consortium of 10 banks-led by Chase Manhattan-that provided South Africa with $40 million in rescue loans, thus making available funds to compensate for capital leaving the country because of political brutality. There were few easily identifiable consumer products to boycott, but a lively campaign was developed against the South African gold coin, the Krugerrand. And Polaroid Corporation workers waged an early, dramatically successful campaign, risking their jobs to stop their employer from continuing to supply the South African government with film for its notorious identification-card system.

The movement focused on ending U.S. corporate and financial engagement with apartheid South Africa. Practicalities, rather than the several areas of U.S.-South Africa economic involvement, determined this choice. By 1982, when the campaign was accelerating, overall U.S. financial involvement in

South Africa amounted to some $14 billion, excluding trade. Direct investment by several hundred corporations was estimated at $2.8 billion. U.S. financial institutions had $3.6 billion in outstanding loans to South African borrowers, and U.S.-based investors held some $8 billion worth of shares in South African mines.

The divestiture movement sought to make institutions such as universities, churches, unions, municipalities, and states sell their holdings in all corporations with direct investments in, or with loans to, South Africa.

When the campaign started, many supporters believed in its educational value-that it would heighten public awareness of the repressive apartheid system and lay the groundwork for eventual federal sanctions. But it seemed to others that the corporate interconnection in U.S. life might be useful; these connections provided levers to exert pressure on the corporations. Every union had a pension fund, and every university and even most colleges had some form of accumulated funds, often invested in "blue chip" corporations. Most of these corporations did business in South Africa. On state campuses and in Ivy League schools, students drew administrators into intense debate about the morality of investing in apartheid. After the Soweto student uprising of 1976, the U.S. student movement grew. By 1982, more than 30 colleges and universities had withdrawn more than $100 million from banks and corporations operating in South Africa, and these divestitures brought new consciousness to hundreds of campuses.

Churches were early participants in the debate and the campaign, with activists struggling for years to get their own boards to divest. Sometimes churches chose to retain their stock and use it to exert pressure on the companies via shareholder resolutions, but by the early 1980s, major Protestant denominations had voted to withdraw funds from banks and do no business with corporations operating in South Africa. Many national, regional, and local churches took special action against Citibank, the largest U.S. lender to South Africa.

By the beginning of the 1980s, the divestiture campaign was beginning to win more than propaganda victories. Activists made new alliances and took their issue to city and state legislatures. By 1982, legislatures in Massachusetts, Michigan, Connecticut; and the cities of Philadelphia, Wilmington, and Grand Rapids, had approved measures to withdraw amounts up to $300 million.

The movement accelerated in the mid-1980s after the South African United Democratic Front gathered more than a million members and then was effectively banned by the South African government. In the United States, a growing number of states, counties, and cities moved to intensify their pressure on the corporations. By the end of 1991, 28 states, 25 counties, and 91 cities had taken economic action against corporations with investments in South Africa, reportedly at a cost to South Africa of some $20 billion. One economic lever was the use of selective purchasing-preference was given to companies not doing business in South Africa.

Grassroots activities contributed to a major 1986 victory in Washington, D.C. The Comprehensive Anti-Apartheid Act was passed with enough votes to override a Reagan veto. This act imposed selective sanctions, including bans on new investment, on sales to the police and military, and on new bank loans. It included specific measures against trade, prohibiting the import of agricultural goods, steel, coal, iron, uranium, and the products of state-owned corporations.

The 1987 Rangel Amendment to the Budget Reconciliation Act further extended federal sanctions and eliminated U.S. firms' tax credit deductions for taxes paid in South Africa.

In the 1960s, a Union Carbide advertisement that appeared in South Africa read, "We've been in South Africa a long time; we like it here."
By the 1970s, no company dared say that in public, and by the end of the decade, companies were seeking to ward off public pressure by adopting a code of corporate behavior: the Sullivan principles. Soon companies began to talk about the "hassle" factor; in 1982, General Electric pulled out of a $138 million joint venture with a South African mining company, admitting that public pressure in its Connecticut home base had influenced the decision.

Such examples multiplied, and corporations found themselves having to choose between doing business and making loans in New York City and California-or
in South Africa. By 1989, key companies like Mobil were pulling out. At the end of the decade, some 200 companies had eliminated their investments in South Africa (although their methods varied greatly, and many continued to do business through licensing, franchising, and distribution agreements).

Despite public pressure, U.S. loans to South Africa continued to grow in the early 1980s, reaching $4.7 billion by the end of 1984. But the nature of foreign capital inflows significantly changed in the early 1980s from direct investment, which seemed increasingly risky, to short-term loans. South Africa's foreign debt grew to $23.5 billion in 1985, a year of political crisis and confrontation.

Meanwhile, the South African banking system entered a state of panic in mid-1985, when Chase Manhattan of New York said it would not renew South African loans as they came due. Other major banks followed suit. The key international lenders stepped in with a number of measures that effectively extended the life of the old loans, but the South African economy never quite recovered.

It is difficult to quantify the costs of sanctions to the South African economy. If the books are opened in a more democratic era, a precise analysis will be possible. Factors such as the drop in the price of gold, which eliminated South Africa's safety net, complicate the task. South Africa's long-vaunted high growth rate, still significantly over 3 percent annually in the 1970s, dropped to an average of 1.3 percent in the 1980s, and slipped into negative numbers in 1990, 1991, and 1992.

A 1990 Washington Post article noted South Africa's declining growth rate and 1986-88 capital outflows, and reported that the country "had sustained net capital outflows of $4 billion not so much because of trade sanctions but because of a cutoff of U.S. and European investment and the calling in of outstanding loans." The Post cited a bankers' study showing that sanctions cost South Africa $32-40 billion between 1985 and 1989, "including $11 billion in net capital outflows and $4 billion in lost export earnings."

South African business confidence collapsed, along with internal investment. Sanctions clearly inflicted some losses on South African exports such as iron, steel, uranium, clothing, fruit, and coal.

Despite many leaks in Western enforcement, the arms embargo forced South Africa to pay markups of up to 100 percent for black market arms and left the country with outdated equipment, particularly aircraft. This embargo was a factor in South Africa's inability to win its war in Angola.

Although the oil companies have not supported the oil embargo, and Western countries have only recently begun to do so, South Africa has had to pay a premium of up to $2 billion a year to evade the ban by OPEC and other oil-producing countries. In April 1986 President P. K. Botha acknowledged that between 1973 and 1984, South Africa spent as much as 22 billion rand in oil premiums.

The context within which sanctions were imposed is important. At no time did sanctions supporters believe the sanctions by themselves could achieve the desired end-bringing human equality and political democracy to South Africa. Rather, the imposition of sanctions was a strategy to provide direct support for an active and ongoing struggle for liberation.