



**World Conference for Action Against Apartheid,
Lagos, Nigeria, 22 - 26 August 1977: Apartheid
Economy and the Role of Foreign Investment**

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World Conference for Action Against Apartheid, Lagos, Nigeria, 22 - 26 August 1977: Apartheid Economy and the Role of Foreign Investment

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NOTES AND DOCUMENTS*

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Conf. 9 November 1977

APARTHEID ECONOMY AND
THE ROLE OF FOREIGN INVESTMENT *

by

The British Anti-Apartheid Movement

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The views expressed are those of the author.

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2. I

Introduction

This paper deals primarily with investment. It does not deal with a number of crucial areas of economic collaboration. Most important of these are South Africa's trade relations. The related areas of white migration, the supply of patents and technology, the training of personnel are all aspects of the extensive economic relations which South Africa is constantly seeking to protect and expand.

The convening of the World Conference Against Apartheid in Lagos, Nigeria, in August 1977 is taking place almost two decades after the initial call by the black people of South Africa for the total isolation of the apartheid regime and, in particular, for a world-wide economic boycott of South Africa.

The British Anti-Apartheid Movement (AM) believes that this Conference provides an opportunity to review the changes which have taken place in the

economy of the apartheid system and how the traditional allies of South Africa have responded to the appeals of the black people for international action to speed the destruction of apartheid.

The first call by black South Africans for economic sanctions was made in 1959, the independent African States were the first to respond and support this appeal. In June 1960, the Addis Ababa Conference of Independent African States decided on a series of measures to be taken against the apartheid regime. At their initiative, the United Nations General Assembly adopted a resolution in 1962 incorporating these measures- the resolution was adopted by 67 votes to 16, with 23 abstentions. Support for a boycott of South Africa spread rapidly throughout the world. In 1964, the International Conference on Economic Sanctions against South Africa sponsored, inter alia, by the AAM discussed the practical measures required for the implementation of economic sanctions.

However, in 1963 the AAM had warned: 'Boycotts without British and American support can have no more than a marginal effect, and South Africa's rulers know it.' South Africa's trading partners resolutely opposed the demands for an economic boycott, despite repeated appeals.

1/ The collaborators,, AAM, 1963.

On 12 June 1964, Chief Albert Luthuli responded to the sentencing of Nelson Mandela and the other Rivonia group by appealing:

To all governments throughout the world, to people everywhere, to organizations and institutions in every land and at every level, to act now to impose such sanctions on South Africa that will bring about the necessary change and avert what can become the greatest African tragedy of our time."

Bishop Reeves, former Bishop of Johannesburg and current President of AAM, had made a similar warning in October 1963 at the Special Political Committee of the United Nations General Assembly. He argued that:

' The choice before the world is now a clear one: it is between effective international action and the probability of bloodshed on a vast scale in South Africa.;

During the next 13 years, bloodshed on a vast scale was avoided, not because the trading partners of South Africa responded to these appeals, but because of the brutal suppression of all opposition to apartheid within South Africa. Indeed, during the intervening years, these countries have extended their economic collaboration with South Africa, despite South Africa's central role in undermining United Nations mandatory sanctions against the illegal Smith regime and its refusal to comply with the resolutions of the United Nations calling upon it to terminate its illegal occupation of Namibia.

However, in June 1976, the bloodshed, of which so many had warned, became a reality when the South African police shot and killed in cold blood an unknown number of peaceful school students demonstrating against ;bantu education.

A new period in South Africa's history had begun. The events of 16 June in Soweto, seen against the background of the victories of the peoples of Mozambique and Angola against Portuguese colonialism and the intensification of the armed struggle in Southern Rhodesia (Zimbabwe), have created a new situation in southern Africa. The balance of forces have altered profoundly in favour of the liberation movements of southern Africa and against the racist régime. South Africa is facing a fundamental political and economic crisis - a crisis which in turn has resulted in a policy crisis for the West and its relations with South Africa.

South Africa's economic crisis

In 1970 one writer observed that in less than 30 years South Africa's output had increased 25 times without serious inflation. At that time little appeared to stand in the way of serious growth. All this has changed.

Following the liberation of the former Portuguese colonial territories, the boom euphoria disappeared as other factors too began to inhibit the vitality of the apartheid economy and South Africa entered a period of rapidly worsening economic crisis. Initially staved off by the increasing gold price, then by massive foreign borrowing dominated by the public corporations and increasingly by the Government itself, the crisis finally proved impossible to control any longer. By the time the 1976 political crisis had developed, business confidence was declining rapidly.

For over a century foreign capital investments, many of them British, had played a major, indeed, a predominant role in creating and sustaining the institutions of apartheid and cheap labour. But now the South African Government and private and public corporations are finding it much harder to raise loans. So, today, the apartheid economy is in serious difficulties, possibly its worst ever. The rate of growth, measured by the increase in GDP at current prices which averaged more than 8 per cent a year between 1946 and 1966, and rose even higher in the late 1960s and early 1970s, had dropped to 4 per cent by 1974/75, was down to 2.5 per cent in 1975/76 and 1.4 per cent in 1976 -- the lowest annual growth rate since the Second World War. With inflation running well into double figures the South African economy is now displaying the classic features of stagflation.

In the first three months of 1977 manufacturing output dropped at an annual rate of 6 per cent. Registered unemployment was rising at an annual rate of over 200 per cent with African unemployment increasing by between 10,000 and 20,000 a month. The property market has slumped, precipitating South Africa's largest bankruptcy ever and including that of the R150-million Glen Anil Land Development Company and two small banks. As South Africa's Financial Mail put it, "general business confidence indicators have slipped off the bottom of the page".

The generally depressed state of the Western economy has certainly contributed towards South Africa's difficulties. But far more important have been two factors within the control of the Vorster régime. First, there has been (and is) "the ambitious capital development programme into which the government became

trapped because of the foreign exchange and budget resources which this would make available".2/ Just how ambitious are the South African Government's plans can be seen from the fact that in March 1976 it was officially estimated that the expected capital needs of the State corporations over the next five years would be R11,574 million. For a breakdown, see the following Table No. 1:

Table 1. South African State corporations' projected capital needs 1976--1981 (in R millions)

SASOL (for a second oil-from-coal plant)	2 000
ESCOM (Electricity Supply Commission to include 3 giant thermal power stations and a nuclear power station)	5 020
ISCOR (Iron and Steel Corporation of South Africa)	3 131
FOSKOR	221
IDC (Industrial Development Corporation)	1 200
	R11 574

Sources: House of Assembly Debates., 10 March 1976; Statement 20 March 1976.

This is far from being an ordinary development plan. It reflects the apartheid regime's desire to create an economy that can withstand a civil war, that is increasingly self-sufficient in essential raw materials or their substitutes, and that is increasingly central to the economic and strategic interests of the West through its high level of profitability as well as its supplies of gold, diamonds, coal, etc., not to mention numerous base minerals, some agricultural products and, above all, enriched uranium.

The second factor that has brought on the present economic crisis is the Vorster regime's military expenditure. Defence spending has increased three-fold, from R344 million in 1972/73 to R1,350 million in 1976/77, and this probably does not yet fully reflect the cost of the Angolan war, as may be seen in the following Table No.2:

2/ M.S. Mendelsohn, The Times, 6 July 1976.

Table 2. South Africa's military budget (in P millions)

Amount	1 350
increase on previous year	070
	702

The March 1977 budget further increased this military spending by 21 per cent (for the year 1977/78) - three times as fast as Government spending as a whole - to cover the cost of extended conscription and the development of a domestic arms industry.

Loans to apartheid

To withstand this crisis, the apartheid regime has resorted to large-scale borrowing either directly or through its parastatal institutions. Details of the known long-term loans are set out in the following Table No. 3:

1976/77
1975/76 1974/75
1973/74 1972/73

Table 3. Foreign loans to South African Government and its Agencies) 1975 July 1976

Amount

Period

(years)

Lead Bankers

Escorn SA Railways Escom Iscor Escom Iscor

US\$6'25 m DM 70 m D-i100 m US'125 m US\$30 m Eurocurrency units:

1976:

Government Railways

Escora

Richards Bay IDC

Foskor

XDC

SABC Johannesburg

US25

US\$75 SiFr 40

DM1100

US\$99

30

D1150

US199

US ,200

SwFr 50

60

SwFr 50 us\$80

US':138

SwFr 30

US !:30

US';2 USA20 US" 7

R22 R65

R13 R34 R86 (Boeings)

R50 R51 R96 (Airbuses)

R1711

R17 R100 (duvha) R17

R70

5

5

3

2 10

5

2 IO(+/-..)

5
 4 10
 4
 5
 R120 R10 R26
 R10 R17 R6
 Paribas Deutsche UBS
 Deutsche European Banking
 Corp° Hill Samuel Deutsche Dresdner/Credit Citibank/Chase Vanhatten/Forgan
 Guaranty Manufacturers Hanover/Barclays UDS
 Hill Samauel Nordic lestdeutsche Landesbank Citibank UBS
 Manufacturers
 Hanover
 Hill Samuel/Dow Citibank Barclays
 Borrower
 1975:

However, it has been calculated that, in addition to these loans in the period April 1975 to January 1976, a further amount of R284 million was borrowed by the South African Government in the form of short-term and medium-term loans. The Standard Bank Review (September 1976) commented on these developments:

' The large current deficits which have been a feature of economic life in South Africa since 1975 have led to a growing dependence on foreign capital to close the gap. Recently, the problem of relyin. on foreign capital has been accentuated by a decreased inflow of long-term funds. Economic and political conditions in the country have not been conducive to attracting long-term loans and direct investment. Hence, apart from the ever increasing reliance on short-term trade finance and loans raised by the government and public enterprises, the authorities were forced to resort to borrowing from IIF.'

The increasingly crucial role of loans and other forms of indirect investment is revealed by the following Table No.4:

Table 4. Indirect investment (total) in South Africa

Year	Rands (Millions)
1956	1 172
1966	1 276
1972	2 891
1974	6 063

Source: Activities of Transnational Coriorations and their collaboration with the regime in South Africa. United Nations, Notes and Documents No. 21/77

The foreign stake in apartheid

The determination of foreign investors, including many of the largest transnational corporations, to invest in apartheid is the most blatant form of economic collaboration with apartheid. This investment grows annually in defiance of the United Nations, the OAU and the expressed will of the black people of South Africa.

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Since 1966 total foreign investment in apartheid has risen from R2,891 million to R12,757 million in 1974, according to the South African Reserve Bank. This investment has not only played a crucial role in strengthening the apartheid economy but directly and indirectly it has facilitated the growth of South Africa's military and police State apparatus. The growth of South Africa's armament and allied industries has been dependent on the active participation of foreign capital, and in many cases it is South African subsidiaries of foreign companies which are directly involved. The activities of transnational companies and the subsidiaries of foreign companies have been well documented by the United Nations, the liberation movements and other opponents of apartheid. Extensive material has also been published detailing the wages and conditions of black workers employed by these corporations and subsidiaries.

The 'Code of Conduct' approach

Throughout the period from 1959 to June 1976, foreign investors, transnational corporations and certain Western Governments ignored all opposition to investment in South Africa. A new feature did emerge in 1973: the case for 'constructive involvement' in apartheid. It was argued that foreign investors could provide better conditions and pay for their African workers and that they could also recognize African trade unions. This approach was adopted by the British Government, which produced a "Code of Conduct"⁷. Recently a number of United States corporations and the European Economic Commission have announced their intention to pursue similar policies.

Even if one disregarded the central arguments against investment, i.e., its role in strengthening the apartheid economy and its military power, the "constructive involvement" case has failed on its own terms. For example⁹ the only British company, Smith and Nephew, to recognize an African trade union, has recently withdrawn this recognition.

Supporters of this approach argue that it has led to wage increases for African workers.

Between 1973 and 1975, African money wages in mining and industry took several strides forward and at first this lent support to the protagonists of this approach. But the coincidence of the emergence of the policy and the wage rises was in most cases fortuitous; and the increases owed far more to the strike wave of

1973, which carried on through 1975 and has not fully died out yet, than to polite pleading in the boardrooms and newspaper columns of Western Europe. And in any case wage increases have not sufficed to close the

black-white wage gap in South Africa, which remains the acid test of all ameliorative claims.

For example, on the gold mines, whose well-oiled publicity machine constantly proclaims the significance of the four-fold increase in black miners' wages in recent years, the wage gap has grown as follows:

Minimum wage per shift

1973 1976

Whites R10.77 R18.54

Africans 0.50 2.20

Gap R10.27 R16.34

A market research firm's investigations into family income in South Africa revealed that between 1970 and 1975 average white family incomes rose from R393 per month to R619, whereas African family incomes rose from R36 to R73 a month. This means an increase in the gap between the races from R362 to R546.^{3/}

Today, as never before, the black worker is enjoying the so-called "fruits" of foreign investment in South Africa. African unemployment, which the racist Government does not bother to record precisely, is officially estimated to be running at 8 per cent. Academic experts estimate that in reality the number of Africans unemployed is approaching 2 million -- out of a total black workforce of around 7 million. The very fact that African unemployment has risen to these unprecedented levels at precisely the same time that the inflow of foreign capital has also reached unprecedented levels indicates the falsity of the argument that foreign investment benefits the black worker. What it does do is to strengthen the whole system of racial oppression and exploitation which bears more heavily on the black worker than on any other section of the South African people.

^{3/} Financial Mail Johannesburg, 13 February 1976.

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Conclusion

The dramatic developments in southern Africa since the defeat of Portuguese colonialism, and in particular since the uprisings in Soweto and throughout South Africa, have produced renewed demands for international action to isolate apartheid. The new policies of Norway and Sweden on investment are an important aspect of the post-Soweto situation. These moves have coincided with the first serious reappraisal of investment policies by some banks and transnational corporations.

In April 1977, Chase Manhattan announced that it would end "loans that in our view tend to support apartheid policies of the South African Government". Two Netherlands banks also announced that no further loans would be made to South Africa until the apartheid system was at an end. A number of major corporations appear to be refraining from increasing their investment because of the growing instability of the apartheid system.

The current political and economic crisis in South Africa has produced a unique opportunity for effective international action - a halt on all further investment and

a ban on bank loans would have a direct and immediate effect on the apartheid system. Senator Howard, South Africa's Finance Minister, has twice visited the United States and Western Europe since June 1976 to seek loans and to reassure investors. South Africa House in London recently organized a special seminar to advise British investors on the best means of justifying their investments, while at diplomatic levels there has been considerable speculation that South African cooperation; in seeking solutions for Namibia and Zimbabwe is dependent on guarantees by the West to South Africa that no action will be taken in this area.

The Western Powers, which continue to collaborate economically with South Africa, must reverse their policies, for the situation in South Africa is not clearly a threat to international peace and statements condemning apartheid are no longer an adequate response. A new policy is required based on a commitment to disengage from apartheid. As minimum and immediate steps we believe that they should commit themselves to the following measures:

- (a) unequivocal support for a non-racial and democratic South Africa based on universal suffrage'
- (b) support for a United Nations mandatory arms embargo against South Africa under Chapter VII of the Charter,
- (c) the immediate halting of all new investment in South Africa and a ban on the provision of bank loans

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- (d) withdrawal of all State-aid and an end to trade promotion with South Africa
- (e) end of all military and nuclear collaboration and the strict application of national embargos on all police and military equipment
- (f) withdrawal of all State-owned and nationalized industries from South Africa, and
- (g) the expulsion of South Africa from the ITF and the withdrawal of all ITF and World Bank facilities from South Africa.

These measures, if adopted by the Western Powers, would complement the growing struggle of the black people of South Africa for the overthrow of the apartheid regime and the complete destruction of apartheid. A very special responsibility exists for the anti-apartheid movements, trade unions, students, churches, political parties and other opponents of apartheid in those countries which refuse to implement these measures. The international campaign for the isolation of the apartheid regime must receive a greater priority and be approached with a new determination if the international community is to assist the People of South Africa in their just struggle for freedom and liberation.