THE WITHDRAWAL DEBATE

U.S. Corporations and South Africa

At the annual meetings of several major corporations this spring a coalition of Protestant denominations, the Church Project on U.S. Investments in Southern Africa, presented stockholder resolutions requesting disclosure of information on the nature of the companies' business in South Africa and urging companies to withdraw from Namibia and Angola. These and similar resolutions of preceding years reflect more than a decade of international concern over the racial situation in Southern Africa and the role of foreign investment there.

Corporations have persistently resisted international pressure to withdraw their economic support from Southern Africa. Yet, during the last two years, many corporations have amended their traditional rationale which argued that investment in those countries would eventually break down discrimination against the black majority. They have argued that by adopting progressive hiring and wage policies, they are hastening the process of economic betterment. The notable turning point in this new rationale for corporate "responsibility" in the Republic of South Africa was Pistorius' announcement of an "Experiment" for an independent South African distributor in 1970, one which it acclaimed a "success" one year later.

Because foreign investment continues to play an important role in the white-controlled territories of Southern Africa, especially in the Republic of South Africa, the question of U.S. and other nations' support for the apartheid system deserves scrutiny. For many years, in Africa, Europe, and the United States debate has centered on foreign firms operating in Southern Africa, analyzing whether they should increase their investments, adopt reform policies, or withdraw in order to promote African power and freedom. The debate has included analysis of U.S. firms and other foreign companies that operate in Zimbabwe despite U.N. economic sanctions, the Portuguese colonial territories of Angola, Mozambique, and Guinea-Bissau, and Namibia, whose occupation by South Africa has been declared illegal by the World Court and the U.N. Debate over the role of foreign investment in white-minority-ruled Southern Africa has focused primarily in South Africa, since that country has not only the largest foreign investment but is also in the most advanced stages of racial oppression and has a strong economy with far-reaching effects on the surrounding territories.

The following is a discussion of the corporate case for investment and reform versus the argument for withdrawal. The analysis in The Withdrawal Debate is adapted from a section of CIC's upcoming publication Church Investments, Corporations and Southern Africa. This publication (8.50) includes social profiles of 15 major companies in Southern Africa and a brief survey of 38 other companies doing business there. It is the first report to detail the 12 major U.S. companies providing 70 percent of U.S. investment in South Africa and three major U.S. companies in other countries of Southern Africa. Surveying the history of and current situation in Southern Africa, the document includes several charts identifying church investments in the 53 corporations and related church policy statements. It also carries information on various groups working on Southern Africa issues.

Note on Terminology

"Non-white" is the term used by the South African government to designate all people who are subject to its apartheid laws. Included are Africans, Asians, and Coloureds. The terminology "non-white" will not be utilized in this report. Instead, this report uses the term "black," referring to Africans, Asian, and Coloured Southern Africans.

Significance of Foreign Investment

Foreign investment in Southern African regions, particularly in South Africa, has been identified as a major reason for the continuation of white minority rule and oppressive racial policies. In South Africa, white supremacy has become institutionalized through apartheid, the legal social and economic system oppressing Africans, Asians, and Coloureds. There the issue of foreign investment was first seriously raised after the tragic killing of 69 and wounding of hundreds of peaceful demonstrators in Sharpeville in March 1960. International attention centered on the South African government's efforts to administer apartheid policies through the restrictive pass laws designed to regulate the physical movement of Africans, Asians, and Coloureds. Foreign investors, having played a critical role since 1946 in the creation of a modern industrial economy in the Republic, were seen as instrumental to the white regime's racial policies. In 1960, recognizing an international threat to peace in the turmoil following the Sharpeville killings, the United Nations passed a resolution calling on the South African government to bring about "racial harmony...and to abandon its policies of apartheid and racial discrimination."

In the aftermath of Sharpeville, foreign capital fled rapidly with the eruption of widespread political turmoil. By June 1961 the country's foreign reserves had diminished by nearly half. The financial and political crisis facing the South African regime was met by internal repressive measures against active African political parties, and thousands were arrested and imprisoned.

By 1964 the regime had proven to the international investment community that whites could maintain a stable economic order. American companies ran advertisements stating their faith in the regime. Charles Engelhard, holding major mining interests in South Africa, initiated the American-South African Corporation to attract American capital back to South Africa. The South African government drew on the $40 million revolving credit arrangement provided by a consortium of ten American banks.

By 1970, ten years after Sharpeville, South Africa's foreign reserves had quadrupled. From 1961 to 1969, British investment, the largest in South Africa, had increased 677 percent, and from 1960 to 1970, U.S. investment had increased 400 percent. In 1970, when South Africa faced the largest trade deficit in its history, the Financial Gazette noted that "a substantial inflow of capital" made it possible for the "gold and foreign exchange reserves to emerge relatively unscathed." Currently, the average rate of return on investment for American firms investing in South Africa is 17-21 percent. Ruth First noted in her report to the United Nations Unit on Apartheid (No. 21/72, p. 17), "It is overseas investments...that have provided essential capital at all crucial growth stages of the economy."

Although the U.S. has an arms embargo against South Africa, so that the regime winds up purchasing military goods from France, U.S. firms, especially metallurgical, vehicle, and chemical companies and petroleum refiners have helped move the South African govern-
ment toward self-sufficiency in production of weapons, munitions, and rockets. The U.S. government also recently permitted the sale of "light jet aircraft," technically classified as "non-military" but in actuality a basic component of counterinsurgency warfare.

U.S. firms continue to work within the framework of South Africa's overall economic objectives. In conjunction with South African state agencies, U.S. firms have increased South Africa's industrial independence through encouraging local production rather than imports and are working on such major industrial efforts as the search for oil, computer technology, and the development of nuclear energy and petrochemicals. Through its expanding economic and military power, South Africa today stands stronger not only internally but also more powerful externally in its influence over Namibia and support for Portuguese colonialism and Rhodesian white minority rule.

Argument for Investment

Corporations have been among the foremost advocates of increasing investment in Southern Africa in order to promote progressive change. They argue that through economic progress, the apartheid system ultimately will yield to the demands of a dynamic industrial economy. They further maintain that, since they comprise a small percentage of the population, whites increasingly are unable to rely solely on themselves for vital skilled labor and management jobs required by a burgeoning economy. In time, they conclude, apartheid restrictions, such as the Job Reservation Act, which states certain jobs must be reserved for whites only, will collapse. Through the gradual economic improvement of the African, Asian, and Coloured populations, living standards will rise, education will become more widespread, and as blacks become acclimated to the Western style of living, they will assume political responsibility.

As early as 1967, Chase Manhattan Bank, under criticism for its involvement in the bank consortium and other direct banking activities in South Africa, stated that "U.S. and other foreign investments in South Africa have created a widening range of jobs, training and educational opportunities. These opportunities have helped give the black people of South Africa a higher standard of living than that of the black people anywhere else on the African continent."

In 1970 General Motors' South African managing director echoed this theme, noting with optimism the prospects for industrialization, "The greatest growth [in the U.S.] has followed from industrial development. The same thing is happening here. It is industry almost more than anything else that is and will continue to provide this vehicle for the development of non-white people, because unless there are jobs for them . . . there will be no useful opportunities for them."

South Africa's business community shares the "progress through growth" view. The Financial Mail, South Africa's influential business weekly, argues that every new investment "is another ray of hope for those trapped on the dark side of apartheid" and postulates that "economic development will bring change that will loosen chains, just as it did in the Middle Ages in Europe."

Perhaps the most elaborate defense of this position appears in *The Stages of Growth and the Future of South Africa*, by M.C. O'Dowd, an officer of the giant South-African-owned Anglo-American Corporation. Based on his treatise on the *Stages of Economic Growth* by American economist Walt Rostow, O'Dowd believes there is historical precedent in Western Europe, Japan, the USSR, and the U.S. for the view that industrial growth and economic expansion bring in their wake successive stages of well-being for all.

The Policy of Reform

A variation of this view argues that reform in employment policies and benefits for African, Asian, and Coloured workers is the necessary course for continued investment. Although corporations and other proponents of this view do not deny that investment itself will ultimately challenge the apartheid system, these corporations increasingly consider themselves responsible for and measured by their provision of "reform" programs. Thus, Mobil, IBM, ITT, GM, and other corporations in response to public questioning of their conduct in South Africa now make readily available reports showing the improvements they have offered blacks in employment, wage scales, training, promotion, and other benefits.

In July 1972, *Time's* Nairobi-based bureau chief for Africa, John Blashill, articulated the position of change through progressive employment policies in a *Fortune* article. In "The Proper Role of Corporations in South Africa," Blashill is not critical of those corporations that are not aware of the fundamental changes going on in South Africa—a growing industrial society which, he says, is making apartheid an anachronism. He quotes Harry Oppenheimer, chairman of the large mining firm Anglo-American Corporation: "A country that refuses to allow something like 80 percent of its labor force to do the best work of which they are capable cannot hope to progress as it should or hold its place in the world." He draws two principal conclusions from his extensive research and interviewing. First, he claims that the time for change is "ripe" and only a few companies through their progressive employment practices could be considered in the forefront of change. Second, he notes that withdrawal by U.S. firms, besides creating unemployment for at least 100,000 Africans, "would serve no useful purpose at all. . . . The withdrawal of American investment would not bring down the apartheid system. More likely, the system would almost certainly cause a violent reaction among South Africa's whites. In fact, American withdrawal might be the only thing that could save apartheid in the long run."

As a result of extensively advertising its efforts, Polaroid Corporation may be the best-known advocate of using investment as a tool of reform. On January 13, 1971, the company announced its response to the Polaroid Revolutionary Workers Movement in Cambridge, Massachusetts, which demanded that the company withdraw from South Africa. With full-page advertisements in seven major U.S. dailies and 20 black newspapers, the company reported it would undertake a one-year "experiment" of dramatically upgrading wages and benefits for black employees and contributing to black education. Polaroid said, "Since we are doing business in South Africa and since we have looked closely at that troubled country, we feel we can continue only by opposing the apartheid system." While recognizing that it is only a small economic force in that country, Polaroid stated it hoped other American businesses could have a "large effect" there.

Since January 1971, according to many U.S. investors, reform has become the key to change in South Africa. In July 1972, Mobil Oil Corporation "disclosed" its employment picture in South Africa at the request of the United Church Board for World Ministries of the United Church of Christ, noting the advances blacks had made since 1962. Mobil said, "What is needed for the continued improvement of the material well-being of non-whites in South Africa is not disinvestment but greater investment."

What evidence is there that the apartheid system has been changed as foreign investment (specifically American investment) has increased? In 1950, American investments in South Africa amounted to $800 million today (1970), they amount to more than $800 million ... during these same years non-whites lost their last representation in Parliament; black opposition parties, press and leadership were banned; and laws were enacted permitting arrest and punishment without charge, trial or appeal. A multitude of other laws passed in this period broke up families and forcibly removed thousands of Africans from areas designated 'white' to tribal areas. In short, far from being challenged with the increase of foreign investment, the apartheid laws have been hardened.

—George Houser, executive director, American Committee on Africa, *Christian Century*, 2/04/71
Other corporations stressing the same theme have made disclosures of information about their South African operations at the request of religious groups. Ford stated in its 1973 Special Informational Report to Stockholders that “the industrialization of South Africa is bringing social and economic changes that will increasingly benefit all groups in that nation...the presence of American-owned companies in South Africa is a positive factor in encouraging economic progress and equal opportunity.”

Similarly, ITT noted in its presentation to church representatives in January 1973, ITT in South Africa, that productivity and enlightened employment policies are the proper course for companies operating in South Africa. The company proposed to stay and “work for the day of racial equality in South Africa.”

Revising its earlier view on investment, Chase Manhattan Bank now states that foreign investors “have both a chance and an obligation to work within these [countries of Southern Africa] to bring about improvements in the education, training, and opportunities available to the non-white populations. American investors, in particular, should bring to bear all of the energy and imagination that have characterized their socially-oriented activities at home. By their policies and examples, they have the occasion to expand the broad and promising horizons of southern Africa for all the inhabitants of those lands.” Official U.S. policy on investment favors the reformers and calls for “enlightened employment practices within the laws of South Africa.”

Some well-known South Africans are among the advocates of reform, including writer Alan Paton, who has lauded Polaroid for its efforts in South Africa. Perhaps the most prominent African to champion the view that foreign companies should remain in South Africa and improve conditions, particularly in the “homeland” areas, where 13 percent of the land is designated for tribal settlement, is Chief Gatsha Buthelezi of the Zulu Bantustan. Speaking at the ceremony laying the cornerstone for English economist Rick Johnston (Cambridge U. Press, 1972) that in the mining industry, employing 13 percent of the black labor force in 1970, “black cash earnings in 1969 were no higher and possibly even lower than they had been in 1911.” Real cash earnings for whites increased 70 percent during that period. In addition, the gap between white and black earnings has consistently widened, from 11.7:1 in 1911 to 17.0:1 in 1961 and 20.1:1 in 1969. In agriculture, which employed 35 percent of the black labor force in 1970, a similar picture emerges, with African real income no higher than it was 60 years ago.

In the manufacturing and construction industries, employing 20 percent of the black labor force in 1970, black employment and wages increased during the previous decade. During that same period, white wages rose faster than black wages, thereby increasing the wage gap from 5.1:1 in 1966 to 5.7:1 in 1971. According to recent estimates, future pay increases for blacks would have to be 5 percent lower than for whites simply to prevent the gap from widening.

While American firms propose that investment provides jobs and is helping to uplift blacks, they give no attention to the sheer magnitude of misery and poverty blacks suffer in South Africa. For example, in the Soweto township outside of Johannesburg, the most economically active area in the country, nearly 70 percent of the more than 600,000 blacks live below the Poverty Datum Line (PDL). This subsistence level, $115 a month, is established by the Johannesburg City Council and considers only bare essentials — food, fuel, and transportation — needed for an average African family to survive. The incidence of poverty in other townships is greater. In 1972, the Productivity and Wage Association noted that 80 percent of Africans live below the PDL.

Another income level, the Minimum Effective Level (TEL), established by the Institute of Race Relations in Johannesburg, is higher than the PDL — $170 a month — and income levels.
cludes a number of other essentials. Using the MEL, at least 85 percent of the blacks in South Africa live below an income level essential for subsistence survival.

The Basic Minimal Level, $196 a month, is a new level now considered by some sociologists and doctors in South Africa to be the basic income necessary to begin to alleviate poverty and deficient nutrition among the blacks. Few corporations, American or otherwise, pay their black workers this wage. Ninety-five percent of all blacks in South Africa do not receive this income.

Education and Health

The presence of foreign investment has not contributed to the health or educational advancement of blacks. The vast majority of Africans receive only a rudimentary education, a situation which has not changed since 1953, when the government established the Bantu Education Act. Government expenditure remained relatively constant between 1950 and 1963, and in 1963 it was 0.57 percent of net national income. By 1966, however, the percentage fell to 0.396, and presently per capita spending for black education is below the 1950 level. Blacks are provided inadequate elementary and secondary schooling, for which they are taxed, while whites are given such education free. Few can enter higher education, and blacks are restricted from vocational and technical training schools because of regulations of white trade unions.

Professor J. V. O. Reid, of the Natal Medical School, has noted that in 1970 the death rate for children in the "homelands" was 25 times that for white children. Of every 1,000 African children born in South Africa, 530 are dead by the age of five. The number of cases of tuberculosis, ten times as common among blacks as whites and linked to malnutrition, continues to rise. Medical reports on conditions in the reserves show widespread malnutrition, infections, and other diseases due to lack of meat, milk, and other nutritional foods. The 1970 South African census figures reported that whites have one doctor for every 455 persons, one of the best doctor-patient ratios in the world. At the same time the black doctor-patient ratio was 1 to 100,000, and in black rural areas the percentage of doctors was even lower.

Call for Withdrawal

In light of the evidence that black poverty has become increasingly pervasive in South Africa during the period that foreign investment has increased rapidly, it is difficult to subscribe to the view that foreign investors' reformist measures are helping blacks. Therefore, many individuals and groups within and outside Southern Africa have called for withdrawal of investment. Espousing a preference for corporate withdrawal is a far more hazardous route for South Africans than remaining silent or opting for reform. Withdrawal of investment is a type of sanction against the present regime, and to advocate action hostile to South Africa is a reasonable offense, punishable by death. The late Chief Albert Luthuli of the African National Congress, exiled from South Africa, is an oft-quoted advocate of withdrawal. In the early 1960's he said, "The economic boycott of South Africa will entail undoubted hardship for Africans. We do not doubt that. But if it is a method which shortens the day of bloodshed, the suffering to us will be a price we are willing to pay. In any case, we suffer already." The South African Students Organization, a four-year-old union of African, Asian, and Coloured students, is forthright in its condemnation of foreign investment, seeing it as giving stability to the exploitative regime. The Coloured Labour Party, an anti-government political party, supports withdrawal. In 1972, its leader, Sonny Leon, said on a trip to the United States that investment strengthens the economy, thus enabling the government "to continue with measures that discriminate against the majority of the people." Certainly among the groups most committed to withdrawal and to black political and economic freedom are the liberation movements in Southern Africa. They include FRELIMO in Mozambique, PAIGC in Guinea-Bissau and Cape Verde, MPLA in Angola, SWAPO in Namibia, and the African National Congress of South Africa, which is underground.

In reports on their South African business, corporations give little attention to these organizations' activities. It is clear that U.S. and European corporate and government interests are increasing their stake in preserving the status quo. The possibility of a full-scale race war, with the U.S. siding with the white regimes, is all the more reason that foreign financial and political forces should recognize the injustice to which they are presently contributing.

Some business leaders have found investment in South Africa contrary to their sense of ethics. Nell Wates, head of Britain's leading construction company, refused to do business in South Africa after conducting a fact-finding mission. The London Observer ran a digest of his report on August 20, 1970, in which Wates concluded: "...the parallel between Hitler's treatment of the Jews... and South Africa's treatment of the blacks today... was brought home most vividly to me when I saw blacks being literally herded like cattle through the Bantu Administration Courts. Just as I think with hindsight it would have been totally wrong to do anything to connive at Nazism in those days, so also do I think we should do nothing that would help to perpetuate apartheid."

Church groups have been among the most vocal in endorsing the principle of withdrawal. In November 1971, an ecumenical church team of fourteen visited South Africa to report on U.S. involvement in that society and concluded, "American corporations should totally disengage from South Africa;...the presence of American corporations in which we are shareholders undergirds the system of racism, colonialism and apartheid which prevails in Southern Africa."

In Europe, the Central Committee of the World Council of Churches adopted a resolution on August 22, 1972, instructing its finance department to sell holdings in corporations directly involved in white-rulled Southern Africa and urged member churches "to use all their influence, including stockholder action and disinvestment, to press corporations to withdraw investments from and cease trading with these countries."

The British Council of Churches has passed a resolution to set up a committee to develop policy vis-a-vis the WCC decision. The General Synod of the Anglican Church of Canada has called on member churches to boycott South African goods. The National Council of Churches has called on corporations to withdraw from Southern Africa.

The position of the advocates for withdrawal can be summarized in the following ways. Since the white South African government sets the context and goals for investment, any investment inevitably strengthens its "game plan," which is to maintain white control. Investment strengthens South Africa militarily and contributes support to the white side of a building racial war.

Investment affects U.S. foreign policy, modifying it in favor of a detente with the white regime in power. U.S. corporations investing in Southern Africa usually try to defend their presence there, thereby giving South Africa and other Southern Africa countries a good image in America. This has an effect on U.S. public opinion.

Withdrawal from Southern Africa would be a major political and economic blow to the white governments that are working hard to build white support among Western nations.

Organizations working on Southern Africa Issues

(Not inclusive)

American Committee on Africa, 164 Madison Avenue, New York, N.Y. 10016
Church Project on U.S. Investments in Southern Africa, 475 Riverside Drive, New York, N.Y. 10027
Interreligious Foundation for Community Organization, 475 Riverside Drive, New York, New York 10025
Office of Charles C. Diggs, Jr., Chairman on Subcommittee on Africa, Committee on Foreign Affairs, House of Representatives, House Office Building, Washington, D.C.
Southern Africa Committee, 244 West 27th Street, 5th Fl., New York, N.Y. 10001
Southern Africa Committee/South, P.O. Box 3851, Durham, North Carolina 27702
United Nations: Office of Public Information - Unit on Apartheid, New York, N.Y. 10017