Testimony of
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of the House Committee on Banking, Currency & Housing

on

The Export-Import Bank and South Africa

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Mr. Chairman, I want to thank you for this opportunity to present our views concerning the continuation of Export-Import Bank support for trade with South Africa.

Since September, 1972, I have been the Director of the Washington Office on Africa, which has specialized in issues of U.S. policy toward southern Africa. Our office is sponsored by nine Protestant denominational agencies and the American Committee on Africa. We serve a growing constituency of groups and individuals including labor, citizens' peace action organizations, churches, university professors and strudents across the country.

Today, the United States stands at a critical moment in the history of its relationship with the Republic of South Africa.

In the spring of last year many of us were encouraged by reports that the United States was re-studying its policy toward South Africa and the options open to the new Administration. We were encouraged when Under Secretary of State Philip Habib testified on March 3, 1977:

> "I can tell you that the general thrust of our policy review has been to find ways of strengthening the commitment of the United States to social justice and racial equality in southern Africa and of demonstrating that commitment in tangible and meaningful ways."

Press reports indicated that restriction or cut-off of Export-Import Bank financing was among the options being contemplated.

We were encouraged when the Vice President of the United States undertook to discuss with the Prime Minister of the Republic of South Africa the possible steps that might be taken in an evolutionary fashion toward political equality for all races in South Africa. It was Vice President Mondale's view that some progress could be made toward that end by convening a conference of all of the population groups of South Africa acting through leaders freely chosen by them and through other steps such as ending the pass laws. If such steps were not taken, he said, relations with the United States could deteriorate.

The response of the South African government to this very modest proposal was to accuse the United States of meddling in its internal affairs, advocating the white race's suicide and of enmity more enormous and more sinister than that of the Soviet Union. Such abusive hyperbole would seem laughable if it had not been followed by tragedy. The South African regime has since June proceeded with brutality, ruthlessness and racist insensitivity to obliterate the most effective and well-organized internal opposition it faced -- the black consciousness movement and the small number of articulate whites who supported a democratic South Africa open to all on a non-racial basis.

The death of Steve Biko on September 14th and the judicial white-wash of his murder that followed illustrated for all to see the processes of police brutality to which thousands of black South Africans have been subjected. Since the uprisings of Soweto in June, 1976, the Vorster regime's police have killed hundreds of demonstrators and detained 2600 people without trial. And, of course, the daily harassment by police

enforcing various influx control and reference book systems has continued to place tens of thousands of Africans in police custody every month.

On October 19th, the South African Minister of Justice, Mr. James Kruger, banned 18 organizations, most of them black. Some of these like ASSECA were purely cultural. Some like The World were profit-making and allied to white business interests. Others like the Christian Institute had furnished a ground where an avant-garde of black and white leaders who shared a religious and ethical tradition could discuss the nature of apartheid and how it could be transformed.

Nine days later, the Financial Mail, which is the most important source of business views in South Africa, assessed the situation in this way:

> " ... what Justice Minister James Kruger did last week was to signal to South Africa and the world alike that this country is now embarked on a path of no return. There is no going back.
>
> The banning of The World and the black consciousness organizations shows once and for all that there is no place within the framework of apartheid ideology for black leaders who reject whites-only decision-making in our urban areas...
>
> ... We can expect relaxation of the jobs colour bar... and of social apartheid... But as far as our government is concerned, all important decisions affecting the lives and livelihood of the majority of blacks will always be taken by non-blacks and by non-blacks only. This is something blacks will never accept."[2]

At the United Nations, the West, led by the United States, accepted a mandatory arms embargo against South Africa. While this is an important symbolic step, its substantial impact on South Africa except in the very long term is dubious. Not only is South Africa already extremely well-armed, implementation and loopholes will continue to be a problem. Furthermore, so long as the Vorster government can be assured of the continued flow of Western credit, investments, loans and sophisticated technology and capital goods, ti can shrug off western political gestures as "irrelevant".

Further American government action is clearly needed if the United States is to maintain its credibility. Donald Woods, the former Editor of the East London Dispatch who has recently escaped from a South African banning order, has put the question in these urgent terms:

> "Unless there is a marked commitment by this Congress during 1978 in support of more positive pressures against the Vorster government, unless the United States takes the lead among the nations of the West to create such pressures, the inter-racial violence which will break out in that country will have far-reaching effects, involving the U.S.A. relationship with most of the African states and with the Third World generally." [3]

> "The first priority of the Western nations should, I submit, be an immediate policy of disengagement -- disengagement from diplomatic, cultural, sporting, trade, military, investment and general economic ties now existing." [4]

As a first step in such a process, we support the position of Senator Clark, Representative Maguire and the Congressional Black Caucus in calling for an end to all Export-Import Bank facilities for South Africa. This step is tangible; it will have an effect; and it is a governmental action which the United States can take unilaterally that will begin to establish that the United States is prepared to back up its words with action.

A growing number of national organizations in this country are calling for an end to Export-Import Bank support for exports to South Africa as an appropriate and urgent response to the increasing repression in that country. I am speaking of groups such as the United Auto Workers, the National Council of Churches, the N.A.A.C.P., the U.S. Catholic Conference, the Coalition for a New Foreign and Military Policy, the American Friends Service Committee, the Phelps Stokes Fund, Americans for Democratic Action, and American Committee on Africa.

THE ARGUMENTS

Export-Import Bank support is a critical element in sustaining the strategic plans of the apartheid system.

Since 1964, the Export-Import Bank has not made direct loans to South

Africa. What it has done, however, is to guarantee commercial bank loans to South African purchasers, insure against the political risks involved in advancing credits to such purchasers, and to encourage commercial banks to make export loans through what is called "discount loans" (enabling the banks to get Eximbank loans related to their export credits at lower interest rates.

In the period 1967-71, Eximbank authorizations for South Africa averaged about $30 million annually, sustaining export sales which were about 5-6 percent of total U.S. exports. However, in the period 1972 - June 30, 1976, Eximbank authorizations grew to five times what they were in 1971. On the average, Eximbank supported 15 percent of export trade, more than the world-wide average in spite of the ban on direct loans. In fiscal 1976, there were only three countries in the world which got more support from Eximbank relative to the size of their imports from the United States than did South Africa. South Africa got double the world-wide average. Only the Philippines, Spain and Venezuela got more.

These developments paralleled and re-enforced the rapid expansion of international bank credit to South Africa particularly in the 1974-76 era, which is extensively documented in the recent study made by the Subcommittee on African Affairs of the Senate Foreign Relations Committee. That study concluded:

> "Politically, international credit provided the margin of funds needed by South Africa in the 1974-76 years to increase its economic and strategic self-sufficiency through infra-structure development implemented by government public corporations and through helping to offset the increased costs of oil and defense imports." [5]

The critical role that Eximbank plays in South Africa, enabling it to get the credit it needs from private sources, was highlighted in a recent article in the Financial Mail:

"At present, a fairly sizable slice of the foreign cash invested in this country consists of credits provided by overseas banks... Part of this is underwritten by the export credit agencies of foreign governments such as Eximbank... If these government guarantees were withdrawn, foreign banks would themselves have to bear the risk. In that event, they might choose not to grant the credits at all. The consequences could be a further drain on South Africa's reserves..." [6]

While much is made in argument of the supposed invulnerability of South Africa to outside pressure, the fact is that South Africa is far more dependent on the West for credits and technology than is generally realized or admitted. The West is not nearly as dependent on South African trade for its economy.

A recent study of trade by the West with South Africa concludes:

"We can isolate one crucial factor arising from South Africa's trade patterns over the last decade which can be seen to have a definite restricting effect on economic growth in the country -- a lack of essential foreign exchange...

But we need to ask how South Africa managed to cope with her large deficits for so long without running into serious difficulties. The answer lies, mainly, in the large inflows of foreign capital which she has received from overseas investors and loans."

"/The eight major trading partners of South Africa_/ are not dependent on her exports for their industrial expansion to anything like the extent to which she is dependent on theirs." [7]

Eximbank authorizations directly assist the key strategic plans of the South African government to survive sanctions.

Since at least 1960, South Africa has known that it might one day face United Nations economic sanctions. It has therefore made plans to build up the "strategic" areas of its economy. To overcome its trade imbalances, it has promoted exports particularly in the field of processed minerals and metals. At the same time, however, South Africa has attempted to substitute locally-made manufactures for imports. But it remains critically dependent on sophisticated technology and capital goods which are imported. Between 1957 and 1970, the proportion of capital goods imported as a per-

centage of total imports increased from c. 30 percent to 45 percent. Our own analysis of U.S. exports to South Africa shows that about 41 percent of themin the 1971-76 period have fallen in the capital goods category, namely machinery and transportation equipment. In 1976 the figure was 45 percent.

An examination of Eximbank authorizations from 1971 to 1976 gives us an illustration of how U.S. capital goods enhance South Africa's strategic plans for self-sufficiency:

$76 million of authorizations related to sales of equipment to ISCOR, a government-controlled corporation which produces 73 percent of the country's iron and steel. The strategic character of ISCOR is indicated by a recent journalistic commentary on ISCOR's profitability:

> "Right now, it's hard to look at any South African supplier of a vital raw material without considering the U.N. arms embargo and the threats of general trade boycotts. Under these circumstances, one cannot view ISCOR's performance with a totally critical, businesslike eye." [8]

$79 million went to help meet South Africa's energy needs by increasing its coal mining and power generation capacity. South Africa so far has no known petroleum resources of its own. But its deposits of coal are among the world's largest. According to Standard Bank, South Africa must double its production of coal from 1976 - 86 to meet the requirements of ESCOM, ISCOR, SASOL and the chemical industry. The first three acronyms stand for three government-run parastatal corporations. SASOL is building a major plant to turn coal into oil, a project that clearly is designed to make South Africa more self-sufficient.

ESCOM is a government-owned electric utility which supplies coal- and hydro-generated energy for 80 percent of South Africa's white-owned and operated mines, industries, commerce and residential areas. With Eximbank assistance, ESCOM was able to borrow $24 million to obtain turbines and computers in the period in question.

$79 million of Eximbank financing supported South African purchases of aircraft. For the most part, these were light aircraft made by such companies as Cessna, Piper, Rockwell, Beech and Bell. Aircraft similar to some of those exported to South Africa are being used in other countries by the military for training, for transportation, or for surveillance. Given the state of seige which now obtains in South Africa, civil aircraft have many potential police and military applications. Thirteen paramilitary units called Air Commandos use private airplanes for surveillance duties under central military command. Eximbank also supported the sale of three Boeing 747s to the South African government's Railways and Harbour Administration. Obviously such jumbo passenger craft can be used in a military emergency to transport troops rapidly to threatened areas such as the Namibia-Angola border.

Even Eximbank credits to industries that may not seem to be strategic may turn out to be just that. South African economics minister Chris Heunis announced on November 9th that his government had legal authority to force even foreign corporations to produce strategic goods that are deemed "necessary or expedient in the interest of the safety of the state."

Given the degree of Export-Import Bank involvement which I have detailed, it can hardly be denied that this United States agency has provided assistance to South Africa in its pursuit of economic and strategic self-sufficiency. It has helped strengthen a minority regime which is facing growing internal resistance and outside denunciation. We must ask, then, are there good and sufficient reasons based on U.S. self-interests for this aid?

The United States interest in promoting a just and stable society in South Africa is not served by Eximbank facilities being used there.

1. How South Africa's Africans see it: Expanding U.S. business invest-

ments, loans and credits in South Africa is generally justified by the argument that economic development and growth means black employment, while any form of sanctions, boycott or disengagement does not serve the interests of blacks because they would cause unemployment. Usually, these explanations are offered by U.S. business executives. Up until the last few years, one could also find many black or "coloured" middle class people from South Africa who would support such a contention.

But since the Soweto uprising of June, 1976, this has not been the case, and it has especially not been so since October 19th of last year when the government expropriated many black moderate organizations.

One must realize that under the Terrorism Act, advocating withdrawal of investments or any other business disruption is an act violating law and order and hence subject to criminal penalties commencing with a five-year prison term. For example, Sipho Buthelezi, a founding member of the Black Consciousness movement, who is presently outside South Africa, was in fact so charged in 1975.

It is therefore all the more startling to hear what African and "coloured" leaders who have been regarded as "moderates" are now saying. Here are some examples:

Bishop Manas Buthelezi of the Lutheran Church on November 18th:

> "It is difficult to see the business community as an agent of change. The present political system serves the interests of the white man, and business is one of the white interests served...
>
> "There is no doubt that if South Africa suffers, the black people will suffer as well. But we must remember that even when a country goes to war, it does so knowing that some of its citizens are going to die in the process. The same thing applies here. We know that there will be suffering, but we realize that it is by suffering that something better will happen. We don't mind taking the consequences." [9]

Chief Gatsha Buthelezi, Chief Minister of the KwaZulu homeland and a

leading moderate African politician reacted to the October crackdown in this way:

> "Sanctions are better than blood and the stage has now been reached where people should support such action, which they did not do before."
>
> "While we know that sanctions will hurt blacks more than whites, we would rather accept this hardship than to continue to suffer wholesale arrests." [10]

Many prominent and perceptive whites who are in tune with what is going on in the black community say that the vast majority now want a complete pullout of western corporate involvement. Donald Woods has said:

> "The measures the blacks themselves, the majority of the blacks would want in South Africa is ostracism above all, ostracism of the Nationalist government of Pretoria, ostracism in trade, in diplomacy, in dealings with the government." [11]

Alan Hendrickse, Chairman of the Coloured Labour Party and a Congregationalist minister, who had advocated gradual reform for many years last summer called for total economic disengagement of the U.S. from South Africa.

The Christian Institute, now a banned organization, stated in September, 1977 that the majority of Africans supported corporate disengagement.

A survey of African attitudes by the Washington Post in late October showed that not a single person in Soweto whom they interviewed in a "man-on-the-street" style wanted continued western economic involvement in South Africa. T. W. Khambule, a high school principal said, "/American investment/ really doesn't help. It stabilizes the government. When the economy is good the rulers can enforce their repressive laws." Even a shopkeeper said, "Forty percent of my goods are American. Take them away and who do you hurt? The African? We can live on mush and water." [12]

2. The positive benefits of Export-Import Bank financing flow primarily to the privileged white minority in South Africa, and not to the black people.

It thus entrenches inequality rather than alleviates it.

The coal mines which import mining equipment, thanks to Eximbank, pay African miners $3 a day, far less than the amount required to sustain a family in even poverty-level subsistence.

According to the South African Institute of Race Relations Survey of Race Relations in South Africa of 1976, the monthly average cash earnings per African miner in the coal mines were 73 Rands or about $100 a month, while whites earned almost 10 times as much. Because of strikes and unrest, a shortage of African workers had developed resulting in wage increases that were large percentage improvements but which still did not bring them up to the level of basic decency.

The financing of ESCOM's generators will not help light black homes. Of the 522,000 African dwellings in so-called white areas, which means 80 percent of the country, only one-quarter have electricity. The West Rand Administration Board has just finished disapproving a plan to electrify Soweto that had liberal business backing.

Very few Africans have the money to buy cars or motorcylces let alone airplanes. But South Africa is a leading market for private aircraft primarily because whites have the income and leisure time which institutionalized racism helps produce for them.

3. U.S. relations with African countries are bound to suffer if Eximbank financing continues.

Today U.S. trade with the rest of Africa is far more significant than it is with white-ruled Africa. In the first nine months of 1977, for example, U.S. imports from Africa's oil exporting states amounted to $10.4 billion.

Most of those imports were from Nigeria, Libya and Algeria. But exports to those countries are only a small fraction of what we import from them. The potential market for U.S. goods in these countries should be significant.

The African countries are now re-enforcing the demand of the black majority in South Africa and placing a very clear question to the United States: "Which side are you on?"

Leslie Harriman, the U.N. Ambassador from Nigeria, made this statement on November 22, 1977:

> "I believe that we ha ve a right to expect that the United States Government and its citizens will, even at this late stage, disengage themselves from the inhuman system. It is unthinkable that this country -- next only to Nigeria in its black population -- can continue to profit from apartheid and maintain respect." [13]

Export-Import Bank financing is perhaps the most conspicuous contradiction between U.S. rhetoric and actual policy in relationship to South Africa. South Africa's Africans and the international community can point to it and say with some justification: "The United States is hypocritcal. It says it supports majority rule but it does not heed the wishes of the majority who want disengagement. Instead Eximbank represents a direct form of bilateral aid to the minority government." It may well be that Eximbank financing will take on the same symbolic importance in U.S.- South Africa policy that the Byrd Amendment held in the first half of the 1970's by identifying the United States as a violator of its own stated principles.

Contrary to many pre-conceptions, cutting off Eximbank authorizations to South Africa will not cost U.S. jobs. Eximbank authorizations may in fact lead in the end to the export of U.S. jobs.

It is often said that by supporting industries which sell products abroad, the U.S. Export-Import Bank is preserving or expanding

employment here in the United States and assisting in keeping down its current deficit in trade balance.

An examination of the situation creates many doubts that these contentions are correct.

According to Ray Denison of the AFL-CIO in testimony before this Committee last year, while Eximbank has not financed as many factories abroad as it did before 1974, "job exports have continued... a textile mill for synthetic fibers in Iran, equipment to manufacture small motors in Brazil, and equipment to make steel tubes in Romania.

When we turn to South Africa, we will discover that Eximbank authorizations to support the sale of capital goods for the coal industry and the government's iron and steel corporation assist those industries to compete with the United States.

South Africa's coal reserves of 60,000 million metric tons are exceeded by only four countries, while its pithead price is probably the lowest in the world.[14] Since coal is a major fuel ingredient in making iron and steel, a South African Commission as early as 1941 recommended concentration on processing South African materials particularly iron and steel. "Cheap coal and iron ore could be the basis of very great expansion of the iron, steel and engineering industry." [15]

The reason why South African iron and steel and coal can be dirt cheap is that the apartheid system ensures very low wages for workers who are non-European. By manipulating influx controls, passes and through the bantustan system, the government creates huge pools of reserve labor which are unemployed and for whom there is no chance of employment in the areas assigned to them to live. Their existence depresses the level of wages which African

workers can get. Government laws allow African labor unions but employers need not bargain with them, and almost all African strikes are illegal.

Today South African coal is being imported into the United States notwithstanding the fact that it has to travel 13,000 miles to get here. In fact, South African imports represented 60 percent of all coal imported in the first nine months of 1977. While the amounts are tiny, they represent an ominous trend.

Perhaps more important, South Africa has a new export contract for coal to Japan said to be worth 500 million Rands, and also with West Germany and Italy. Now, the United States is also an exporter of coal. But how can it compete with a country whose price of coal reflects slave-labor conditions?

ISCOR, the state-controlled iron and steel corporation, has enjoyed government subsidies from its inception in order to keep steel prices low. This has been South African government policy from the beginning.

ISCOR now has plans to become a major exporter of semi-processed steel to the Common Market countries and to other overseas markets. In very small quantities, South African steel is now being imported into this country. European producers are alarmed by South Africa's cut-rate prices for its steel and have accused South Africa of dumping.

These developments could not have taken place without foreign loans including those which Eximbank assisted.

These factors help us understand why the International Confederation of Free Trade Unions is now initiating a campaign to promote recognized trade unions for Africans in South Africa and at the same time to press for denial of foreign trade credits to South Africa.

Cutting Eximbank facilities for South Africa will not have a damaging effect on U.S. balance of trade problems.

While it is true that the United States now has a disturbingly large trade deficit with the world and has a favorable balance of trade with South Africa, the Export-Import Bank's facilities for South Africa are not directly relevant to the solution of the American deficit posture.

As economist James Morrell of the Center for International Policy has pointed out:

> "The fact is that the bank is already deluged with more requests for financial assistance worldwide than it can handle, and a cutoff of loan guarantees to South Africa would simply mean that more would be available for other countries."

SUMMARY

In the forthcoming years, the level and degree of confrontation between the apartheid government and the oppressed majority within South Africa will grow. While the Draconian measures which the South African state has taken to once again break up the organized resistance to apartheid may take a toll for a time, in the end, the majority of the population will destroy what is for them an intolerable contradiction of their humanity. By what means that end will come about we cannot now tell; the struggle will go on until there is majority rule. Of that there can be no doubt.

The Western countries now have to decide if their profession of morality and concern has substance. There can be no doubt that the West has it in its power to shorten the struggle of the majority for their human rights by using its economic leverage. The question is whether it has the political will to stop doing "business as usual".

The Congress now has the opportunity to move governmental policy in the direction of discouraging further economic support for the apartheid system.

Ending Eximbank facilities for South Africa is a modest first step. It will not be a costly sacrifice of U.S. interests, but will rather safeguard our interests by insisting that racial justice be done, for there can be neither peace nor stability in South Africa until justice is done.

We therefore enthusiastically recommend that your Committee adopt the language proposed by Representative Andrew Maguire in H.R. 9746 as an appropriate response to the actions of the South African government. Such action would demonstrate our willingness to support the victims of oppression in South Africa. We believe it would give tangible evidence that the United States intends to go forward in the spirit of the Collins resolution which the House passed on October 31st by a margin of 347-54. Such verbal condemnation of the actions of the South African government needs the reenforcement of this further concrete action.

FOOTNOTES

[1] Testimony before the House Committee on International Relations Subcommittee on African Affairs.

[2] Financial Mail, October 28, 1977.

[3] Testimony on January 31, 1978 before the Subcommittee on African Affairs of the House International Relations Committee.

[4] Statement before the United Nations Security Council, January 25, 1978.

[5] "U.S. Corporate Interests in Africa," Report to the Committee on Foreign Relations by Senator Dick Clark, Chairman, Subcommittee on African Affairs, January, 1978.

[6] Financial Mail, June 10, 1977.

[7] Duncan Innes,"The Role of Foreign Trade and Industrial Development in South Africa," Paper No. 9 in The Economic Factor edited by John Suckling, Ruth Weiss and Duncan Innes; published by the Study Project on External Investment in South Africa and Namibia (London, 1975). p. 125, 141.

[8] Financial Mail, November 11, 1977.

[9] Financial Mail, November 18, 1977.

[10] Daily News, Tanzania, November 5, 1977.

[11] Donald Woods on Face the Nation, January 8, 1978.

[12] Washington Post, October 29, 1977.

[13] letter delivered to the Church Center, New York, November 22, 1977.

[14] D.H. Houghton, The South African Economy, Fourth Edition 1976, Capetown. p. 30, 102.

[15] op. cit. , p. 137.