The Case for Corporate Withdrawal and
No More Bank Loans to South Africa

Recently, concern about U.S. loans to and investment in South Africa has grown significantly. Churches, universities, unions and civic groups have publicly opposed continued U.S. corporate involvement there. These organizations have initiated shareholder resolutions seeking corporate withdrawal, sold stock in corporations operating in South Africa, and withdrawn funds from banks lending there. The Republic of South Africa and many U.S. corporations oppose these positions. They usually cite several points:

I. Foreign investment has improved conditions for blacks in South Africa.

II. The South African economy is sound.

III. Blacks in South Africa want foreign investment.

IV. U.S. investment in South Africa is not significant.

Let us respond to these arguments.

I. Foreign investment has <u>not</u> improved conditions for blacks in South Africa.

A. <u>Social and Political Conditions</u>: Although foreign investors claim their capital assists the black majority, history proves them wrong. Foreign investment to the South African government and private industry there has helped to maintain an economic system based on cheap African labor. Apartheid (the official policy of racial discrimination) has grown stronger in recent years. The government forces blacks into segregated compounds. Blacks are forbidden to own property, denied the free education offered to whites, excluded from most managerial jobs and public facilities reserved for whites, denied political rights of assembly, organization, press and the vote. The November, 1977 elections in which only whites voted, only served to further entrench this oppression.

The tragic death of the imprisoned non-violent black leader, Steve Biko, was just one among many abuses of human rights which resulted in a unanimous vote by the U.N. to impose a mandatory arms embargo against South Africa. In October, 1977, a new wave of massive arrests began. Bannings of virtually all government critics, black and white, continue. The Christian Institute and other religious organizations as well as all major black publications and a number of community development projects in black townships have been outlawed.

B. <u>Economic Conditions:</u> While in recent years more blacks have obtained skilled jobs, the South African Department of Labor documents that the proportion of Africans in almost every skilled category has declined between 1975 and 1977. In administrative, executive, and managerial positions alone, the proportion of Africans has dropped from 2.9% to 0.4%. According to the South African newspaper, <u>The Rand Daily Mail</u>, urban black unemployment has risen to approximately 25% (higher in rural areas) while that for whites is under 1%.

In the area of wages, blacks have also lost. While their wages have improved slightly, the gap between their wages and those paid to whites has increased. According to <u>Business Week</u> (October, 1977) "Whites in mines average $1,027 per month compared with $124 for blacks; a gap of $903 against 1974's gap of $722." The same phenomenon exists in other sectors such as manufacturing. Moreover, what little gains blacks have made in absolute wages have been offset by the negative effect of inflation (currently 11%). During 1975 over 60% of African households had incomes significantly below the poverty line established by the government.

Clerarly, foreign investment is not improving conditions for blacks. Rather, as a Senate Foreign Relations subcommittee said in its January, 1978 report, "the net effect of American investment has been to strengthen the economic and military self-sufficiency of South Africa's apartheid regime." The subcommittee found an "abysmal performance" by most firms in relation to South African racial policies.

2. The South African economy is <u>not</u> sound.

Since 1975 South Africa has been experiencing the worst recession in 40 years. Nationwide, one in five machines is standing idle. The automotive industry is operating at 60% of capacity. The government devalued the Rand twice in 1975 and since has suffered from its heavy reliance on an unstable gold market. In addition, the rate of return on foreign investment has dropped at least 3% since 1975. The influx of foreign capital declined in 1977, only aggravating South Africa's recession. Today, factory output stands where it did five years ago.

More importantly, the climate for investment in South Africa has deteriorated. The University of Delaware's latest political risk index describes South Africa as falling into the moderate risk category, and by 1980 the index estimates South Africa will be a prohibitive risk, and by 1984, it will be at the top of the prohibitive risk category. The increased risk is also evidenced by the accelerated repatriation of earnings by U.S. firms. Traditionally, U.S. subsidiaries retained more than 60%, but in 1975 the amount dropped to 50%, and in 1976 American companies sent home nearly two-thirds of the profits earned there.

The growing concern for the economy is also evidenced by the exodus of whites from South Africa. The UPI reported from Johannesburg that in 1977 South Africa suffered its biggest white exodus since 1960 and the second largest since World War II.

The uncertainty of South Africa's future has caused some major U.S. banks, such as Citibank in New York and First National Bank in Chicago, to declare in early 1978 that they will make no further loans to the South African government (though they continue to lend to private companies there).

3. <u>Blacks in South Africa do not want foreign investment</u>.

Many black leaders in South Africa now call for an end to all foreign investment. The late Steve Biko said that American investments "serve to entrench the position of the white minority regime." He noted, "Whilst it is illegal for us to call for trade boycotts, arms embargos, withdrawal of investments under current South African law, America is quite free to decide what price South Africa must pay for maintaining obnoxious policies."

Organizations ranging from the recently banned Christian Insttute to the African National Congress and Pan-Africanist Congress (both recognized by the U.N. and the Organization of African Unity as the representatives of the South African majority) have also called for no more investment. Chief Gathsa Buthelezi, head of the Zulus, stated in November, 1977, "Sanctions are better than blood and the stage has now been reached where people should support such action. While we know that sanctions will hurt blacks more than whites, we would rather accept this hardship than continue to suffer wholesale arrests." (Durban DailyNews quoted in Tanzania Daily News, November 5, 1977).

Black leaders in South Africa have stated that their people are willing to sustain short term hardship in order achieve long term gains of political rights and economic redistribution. Popular support for this position has been evidenced by massive student boycotts of schools and by an increasing refusal to participate in the token structures provided to the black majority. For example, in recent elections for the community council in Soweto, only 6% of the voting population participated. In addition, since the riots of Soweto in June, 1976, thousands of South African blacks have demonstrated against the government's racist policies. More than 600 people have been killed in the unrest and more than 6,000 have been arrested.

4. U.S. investment in South Africa is significant.

As described above, South Africa has experienced serious economic difficulties. In eight of the last ten years it ran a balance of payments deficit. Loans and investments from foreign countries served to cover this deficit and supplement domestic savings. By the end of 1976, South Africa's debt to foreign lenders had reached $7.6 billion, more than double the $2.7 billion outstanding in 1974. Loans by U.S. banks and their overseas branches have been critical in propping up the government during this period. Between 1974 and 1976 U.S. bank loans in South Africa doubled, bringing the U.S. total there to over $2.2 billion. They now account for nearly one-third of the credits to South Africa.

The U.S. is now South Africa's largest trading partner. Approximately 480 U.S. corporations are active there, making the U.S. the country's second largest investor. These investments are critical, not only because of their amount but because of their strategic nature. American companies control 43% of the petroleum market, 23% of the auto sales and 70% of the computer business. These are key industries for the South African economy.

GROWING OPPOSITION TO U.S. CORPORATE INVOLVEMENT IN SOUTH AFRICA

As noted, American opposition to U.S. corporate involvement in South Africa is increasing. Major church organizations, such as the National Council of Churches and the General Synod of the United Church of Christ, have urged their members to withdraw their funds from banks lending in South Africa. The AFL-CIO, the UAW, the United Electrical Workers, and other unions have backed the call for corporate withdrawal. Several unions have withdrawn substantial pension funds from banks lending there. The Drug and Hospital Workers, withdrew $236 million from several New York banks. The University of Wisconsin, University of Oregon, University of Massachusetts at Amhurst, and Hampshire College have decided to sell stocks in companies still doing business in South Africa. Other universities, such as the University of Illinois, have agreed to vote their shares in favor of no more investment in and withdrawal from South Africa.

The American public is also calling for an end to investment in South Africa. A Harris poll in November, 1977 found that 42% of the respondents favored preventing all new investments there (only 33% opposed). Senator Dick Clark's Subcommittee on

African Affairs recently called for no more loans to South Africa. The Congressional Black Caucus has proposed various measures to discourage further business there, including an end to Export-Import Bank guarantees for loans and tax credits for corporations investing in South Africa. Most recently, the NAACP advocated an end to corporate investment in South Africa. Even Reverend Leon D. Sullivan, a member of the Board of Directors of General Motors, who last year proposed corporate reforms for the work place in South Africa, now supports an end to bank loans and no further investments because U.S. capital has failed to produce the necessary reforms in the apartheid system.

In summary, the exiled South African journalist, Donald Woods, in testimony before the U.N. Security Council in January, 1978 stated that "The first priority of the Western nations should be an immediate policy of disengagement from diplomatic, trade, investment, and economic ties now existing."

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