THE CASE AGAINST U.S. INVESTMENT IN SOUTH AFRICA

Church groups have long been concerned about U.S. corporate investment in South Africa and its effects on the black majority. Among the first shareholder resolutions ever submitted by church investors was a proposal in 1971 to General Motors from the Episcopal Church, asking the company to withdraw from South Africa. In the intervening years, church investors have requested that companies operating in South Africa take a variety of actions, including disclosure of information, an end to expansion and new investment, withdrawal of operations from South Africa, and an end to loans to the Republic of South Africa.

This brief is excerpted from a longer paper by Father Charles Dahm, O.P., outlining the reasons why many church investors oppose U.S. investment in South Africa. Father Dahm is chairperson of the Illinois Committee for Responsible Investment, whose membership is comprised of 20 Catholic and Protestant church organizations in Illinois.

Introduction

A growing number of American institutions oppose loans to and investment in South Africa by U.S. corporations. Churches, universities, unions, and civic groups are demonstrating their opposition by, among other things, initiating shareholder resolutions seeking corporate withdrawal, removing funds from banks lending there, and selling stock in corporations operating in South Africa. U.S. corporations, along with the government of South Africa, have objected to these actions with the following claims:

- foreign investment has improved conditions for blacks in South Africa;
- the South African economy offers good opportunities for sound investment;
- blacks in South Africa want foreign investment;
- U.S. investment in South Africa is not significant; and
- not investing in South Africa is a "political decision" which belongs to the U.S. government and not to private corporations.

Churches and other groups maintain that the facts fall to support these arguments, and the documentation is presented here for each one.

I. Foreign investment has not improved conditions for blacks in South Africa

Social and political conditions. Social conditions are hardly better now for blacks than they were decades ago. Foreign loans to the South African government and investment in private industry wind up supporting the economic and political system of apartheid — the official policy of racial discrimination and white supremacy.

Under apartheid, blacks are assigned to remote rural reservations called bantustans. Although blacks (including coloreds and Asians) constitute 84 percent of the population, they are allotted 13 percent of the land. This land, most of which is of poor quality, is scattered throughout the country in 81 separate and non-contiguous segments. Even in these remote reservations, white South Africans control the police, most sources of public funds, and most private enterprises.

During recent years, while private foreign investors argued for their positive effect on the black majority, the South African government has accelerated the program of forcing blacks into these territories. Blacks can enter white areas only for purposes of work, and their presence there is strictly controlled by police through a system of "passbook" identification. An average of 250,000 Africans are arrested for pass law violations each year. 2

Apartheid not only guarantees that blacks and whites are separated, but it assures white supremacy. Africans are barred from equal access to housing, schooling, medical care, job opportunities and the like.

While education for whites is free, blacks must pay — and this in a country where blacks, the vast majority, earn about 30 percent of the wages paid in the nation while whites earn 70 percent. 3 The government spends approximately 15 times more for a white student than for a black. Black education is so inferior and opportunities so limited that two-thirds of the black students drop out by sixth grade, and only 0.3 percent of those who actually begin elementary education complete high school. Nearly all whites, on the other hand, finish higher education. 4

While the South African government does not publish data on the conditions of health among Africans, it is estimated that about half of the babies born in the bantustans die before the age of one.

Blacks face rigid barriers not only in education and health but also in public accommodations, transportation, pension, entertainment, job placement and promotion and in being able to establish businesses for themselves. Blacks enjoy no right of assembly, organization, and most importantly, the vote.

Blacks are kept from exercising their human rights by a barrage of repressive laws and by a notoriously effective security police. Abuses such as the death in prison of black leader, Steve Biko, in September 1977, resulted in a unanimous vote by the United Nations to impose an arms embargo against South Africa. But, since Biko's death, several additional black leaders have died "mysteriously" in government prisons. Virtually all government critics, black and white, are banned or under arrest. The Christian Institute and other religious organizations opposed to apartheid as well as all major black publications and several community development projects in black townships have been outlawed.

Economic conditions. One of the key arguments of American investors in South Africa is that continued investment helps blacks, first economically and then politically. The argument takes two forms: that benefits "trickle down" to black, and that the American presence can set an example and create incremental progress toward a more just society.

Somehow, the alleged trickling
down celebrated in the United States has failed to work in South Africa. In its most important industry — mining — a study at Capetown University showed that earnings of blacks in South African gold mines bought more in 1911 than in 1970. But much of the current American expansion in South Africa — a new $50 million operation by Union Carbide, a new $100 million joint investment by Phelps Dodge and Consolidated Goldfields, and a new $125 million investment by Kennecott Copper — is in mining.

Despite 30 years of trickling down, the African wages are miserably low, and they have not gained against inflation. The officially reported average wages of Africans in all sectors of the economy remain below the Poverty Datum Line (PDL), the minimum income estimated by the government as essential to survive in South Africa. The Financial Mail commented, "It is generally conceded that if any kind of reasonable living standard is to be reached, a family's income must be 150 percent of the PDL..."

In recent years some blacks have advanced in the economy by obtaining skilled jobs, but the South African Department of Labor says that the proportion of black Africans in almost every skilled category declined between 1975 and 1977. The proportion of blacks in administrative, executive and managerial positions, for example, dropped from 2.9 percent to 0.5 percent. Meanwhile, black unemployment rose over 25 percent in 1978, while that for whites declined under 1 percent.

Between 1970 and 1976, the average real monthly earnings of blacks in manufacturing increased 52 percent (from $2 to $70 rand), while that for whites rose only 11 percent (from $307 to $340 rand). But the gap between average white and average black wages grew from 225 rand a month to 260. In mining, the Business Week reported in January 1978: "The uncertainty of South Africa's economic climate. In 1978, the University of Delaware's political risk index described South Africa as a moderate risk, but predicted that by 1980 it would be a prohibitive risk and by 1984, at the top of the prohibitive risk list.

The state has tried partially to fill the vacuum left by private capital and insulate itself against possible economic sanctions by increasing investment in government corporations. Public (parastatal) corporations accounted for only 6 percent of the new gross domestic fixed investment between 1960 and 1965, 8 percent in 1965, 11 percent in 1970, and 17 percent in 1975. Conversely, the private enterprise share of gross domestic fixed investment fell from 65 percent in 1950 to 49 percent in 1975. This growth of the public sector reflects South Africa's staunch commitment to apartheid.

The uncertainty of South Africa's economic future has caused some international lenders to limit their investment in South Africa. Some major U.S. banks, such as Citibank in New York and First
National Bank in Chicago, declared in early 1978, after a few years of heavy lending, that currently they were not making loans to the South African government or parastatals (even though they continued to lend to private companies there). In 1979, Merrill Lynch, the largest brokerage firm in the world, stated its intention not to underwrite further government bonds or make new loans to South Africa until social and economic conditions changed. These are bad omens for South Africa, which now needs new long-term loans in order to pay back previous loans and support economic expansion.

In June 1978, the London Economist said that without foreign loans, the South African economy will not grow and will not be able to absorb the expanding black population. South Africa, it wrote, “is sitting on a time bomb of rising unemployment, hence of discontent and revolution-fodder.” Officials in South Africa estimate a future growth rate of 5.5 percent in order to absorb the workers coming into the job market. Although predictions indicate a growth rate in 1979 that will surpass the 2.5 percent rate of 1978, there is little evidence that 5.5 percent will be reached in the near future.

III. Blacks in South Africa do not want foreign investment.

To oppose foreign investment in South Africa is a federal offense punishable by death. Leaders, therefore, must state their positions cautiously. Bishop Desmond Tutu, General Secretary of the South African Council of Churches said in an interview in 1978:

We ask our friends to apply economic pressure... Our last chance for peaceful change lies in the international community applying political, diplomatic and especially economic pressure.

Although he did not call for economic sanctions, he added:

Any black leader who calls for economic sanctions is already guilty of treason under the Terrorism Act and subject to five years in prison or death. We have said as much as we can possibly say. We hope we have reasonably intelligent friends overseas who will know what we’re saying.

When asked about withdrawal of U.S. corporations, Dr. Ntutho Motlana, chairman of the Soweto Committee of 10 who was recently released from prison, carefully stated:

If I said that the only way to bring change would be total economic sanctions, I would be liable to go to jail. So let’s just be cagey. Let’s just say that I support ‘pressures,’ and leave it at that.

Bishop Manas Buthelezi, a leader of the Black People’s Convention, stated:

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 may happen. We don’t mind taking the consequences.

The Christian Institute in South Africa wrote in 1976:

The argument that economic growth can produce fundamental change has proven false. Many black organizations have opposed foreign investment in South Africa, and this would be the opinion of the majority of South African blacks if their voices could be heard.

Even U.S. Ambassador Bowdler wrote to the State Department in 1977:

Among black youth and more militant groups, as well as some businessmen, any foreign investment is viewed as propping up the South African economy and its social system. They argue that jobs provided are marginal compared to numbers suffering from apartheid.

The more conservative South African Council of Churches, representing some 15 million members, urged foreign firms in July 1978 to “radically revise” their investment policies since they “have largely been used to support the prevailing patterns of power and privilege.”

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

Almost every major U.S. corporation does business in South Africa. Approximately 350 U.S. corporations have operations there, while thousands more are involved through agents and distributors. U.S. direct investment in South Africa now represents approximately 37 percent of total U.S. investment in all Africa. American companies have at least $1.665 billion of direct investments in South Africa, comprising 17 percent of all direct foreign investments there.

By 1970, over 50 percent of U.S. investment was in manufacturing, 10 percent in mining and 25 percent in petroleum. Manufacturing contributed a larger proportion of South Africa’s gross domestic product (22.1 percent in 1974) than any other sector. Its growth has in part been promoted by American expertise and technology. At the end of the 1960s, the official FANZEN Commission indicated that 40 percent of South Africa’s manufacturing was controlled by foreign interests.

A relatively few U.S. corporations control most of U.S. investment. As of 1973, three-fourths of U.S. direct investment in South Africa was in the hands of 12 companies. Three of the oil companies — Caltex, Mobil, and Exxon — control about 44 percent of the country’s petroleum products market. General Motors, Ford and Chrysler control at least one-third of the auto market, and it is estimated that 70 percent of the computer market is controlled by U.S. firms. IBM stands as the single largest supplier and servicer of data-processing equipment in the country. Estimates of its market share range from 38 percent to 50 percent. At least one-third of all IBM’s business in South Africa is with the South African government, and U.S.-marketed and serviced computers are in use in at least 18 government agencies, including the departments of Defense, Prisons, Atomic Energy, and the Interior (which enforces the apartheid laws).

Foreign capital enters South Africa through three major paths: direct investment, long-term loans, and short-term loans and trade credits. Until the late 1960s, direct foreign investment accounted for two-thirds of South Africa’s foreign obligations. This situation changed in the 1970s when foreign loans became increasingly important. The rising price of oil imports to South Africa, the declining markets for South African exports in a world suffering from economic recession, and increasing government spending on arms required to assure white supremacy, created even greater demands for foreign capital.

More than 50 U.S. banks helped to prop up South Africa during this period. 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 provided nearly one-third of these credits — $2.27 billion — or nearly triple that supplied by them two years earlier. This increase was roughly equivalent to the amount of foreign exchange required to cover South Africa’s defense and oil im-
Ⅴ. U.S. Investment in South Africa is not "apolitical."

U.S. investors argue that they are essentially "apolitical" and as "guests" in a country, they cannot offend the "host government." In fact, U.S. investors in South Africa are immersed in politics whether they like it or not. When General Motors sells vehicles or Mobil sells petroleum to the police and military, the political consequences are clear. When Citibank makes a loan to the government or Union Carbide confesses that it would be taken over by the government if it tried to leave, their political involvement is obvious. Bishop Tuto, General Secretary of the South African Council of Churches stated in 1978:

They know their money is not neutral. Wherever their money is needed, they have considerable leverage. Even the Chamber of Commerce in South Africa has begun to say to the government, "If you expect us to operate economically, we cannot continue to work under these regulations." To stand on the fence is as political as jumping either way because you are siding with the status quo.40

In summary, there is mounting evidence that U.S. investment in South Africa acts in a political fashion, constitutes a financial risk, and has not measurably improved conditions for the black minority. As church organizations, universities, and other U.S. investors continue to pressure companies on these issues, it becomes clear that the responsibility for the effects of U.S. corporate involvement in South Africa remains in the hands of corporate officials and the American people. In the words of Steve Biko:

While it is illegal for us to call for trade boycotts, arms embargoes, or withdrawal of investments under current South African laws, America is quite free to decide what price South Africa must pay for maintaining obnoxious policies.41

Notes

3. Ibid., p. 8.
4. Ibid., p. 13.
10. Financial Mail, September 16, 1977, pp. 2-4. Figures have been left in rand for comparison over time, as the exchange rate between the dollar and rand has been subject to several significant changes since 1971. Quoted in Jennifer Davis, "U.S. Dollars in South Africa: Context and Consequences," New York: The Africa Fund, 1978, p. 2.
11. Business Week, October 1977. The gap between the wages of blacks and whites in the mines is worse than in any other sector of industry, and it has been widening. The ratio was 9 to 1 in 1911, 11 to 1 in 1946, and over 20 to 1 in 1970. W.J. Bassie, Counter Intelligence Service, Consolidated Gold Fields Annual Report, London, 1977.
13. Responses made to questions posed by the author at the annual meetings of the corporations in 1978 and 1979.
16. IRRC, Corporate Activity, 1979, G-5.
24. Ibid.
27. Bowdler, "Confidential Cable."
30. Litvak, South Africa, p. 44.
34. Senate Subcommittee, U.S. Corporate Interests.
37. Ibid., p. 13.
41. "Voices for Withdrawal." p. 3.