American Committee On SOUTH AFRICA: Questions and Answers On Divestment

There is a growing debate about whether US investments in South Africa help or hinder efforts to abolish the system of white minority rule known as apartheid. Corporations have claimed that investment provides job opportunities and helps promote positive change. Opponents of investment contend that US involvement provides capital and technology needed by the white minority to maintain its absolute domination over the black majority.

A movement for divestment of funds from corporations that invest in South Africa is growing throughout the United States. It involves leaders of civil rights organizations, labor unions, churches, universities, community groups, and state and municipal legislators. They argue that ending South Africa-related investments will make new funds available for mortgages, home improvements, and community development. The following questions and answers on divestment have been prepared to help deal with the issues that are being raised by this debate.

1. Why focus on South Africa?

"Attention is focused on South Africa not because it has quantitatively less freedom, less justice or less democratic government than a hundred other countries one could name," according to Sydney Kentridge, a prominent South African lawyer. "Those goods do exist in South Africa but they are strictly rationed on the sole basis of color — not of citizenship or birth or merit, but color alone."

While South Africa does not hold the monopoly on racism, this is legalized racism at its most brutal. Color determines every facet of human life and death in South Africa.

- The African population is 22.7 million. The white population is only 4.7 million. Whites vote. Africans are not permitted to vote. Comprising over 72 percent of the population, Africans may live permanently on only 13 percent of the land area.
- The average monthly wage in 1982 was $1136 for whites, and $250 for Africans. For every $1.00 that a white employee earns, an African earns 22c.
- In 1983/84 the government spent $1199 on education for every white child, and $845 for every African child.
- In 1980, of every 1,000 white children born, 13 died in infancy. In some rural areas, 240 out of every 1,000 African children born die in infancy.

2. Isn't economic involvement in South Africa a foreign policy issue that should be handled by the federal government?

In an important opinion of May 1984, the Attorney General of Maryland, one of the 29 states to have considered the enactment of divestment legislation, stated that there is no conflict between divestment legislation and the US Constitution, federal law and federal foreign affairs powers.

A separate opinion prepared for the prestigious Lawyers' Committee for Civil Rights Under Law in August 1984 agreed: "State divestiture legislation violates no statute, treaty or executive agreement of the United States, and so transgresses none of the grounds upon which state action has traditionally been deemed violative of national foreign policy."

Beyond the legal question, many state and city officials have been adamant that divestment not be relegated to the realm of foreign affairs. New York City Mayor Ed Koch endorsed the July 1984 report on "City Policy With Respect to South Africa" which stated that: "The issue is the relationship between the City's finances and an unjust system. We believe that there is no legal or constitutional requirement that the City support apartheid in any way. It is simply not accurate to say that South Africa's governmentally supported policy of massive and sustained discrimination is none of our concern."

3. Why is corporate withdrawal necessary?

"The net effect of American investment has been to strengthen the economic and military self-sufficiency of South Africa's apartheid regime." (Report of the Senate Subcommittee on Africa January, 1978.)

Total US financial involvement in South Africa, including direct investment, bank loans and shareholdings, totals some $14 billion. There has been a tripling of direct US investment to over $2.6 billion.

General Motors and Ford manufacture cars and trucks used by the police and military. Secret General Motors contingency plans prepared in 1979 indicate that the company would cooperate with the South African government: "in the event of civil unrest" and that "vehicles may be taken over for Civil Defense purposes."

Fluor Corporation of California, in contract with SASOL, the South African Coal, Oil, and Gas Corporation, provided $4.2 billion worth of coal-to-oil conversion plants to help South Africa achieve energy self-sufficiency and withstand an oil embargo. Major US oil companies like Exxon, Mobil, Texaco, and Standard Oil of California are supplying oil to South Africa in violation of the OPEC embargo.

Control Data Corporation sold equipment to the South African police in violation of US Commerce Department regulations. Other firms such as IBM have supplied computers to the government for streamlining South Africa's racist population controls.

4. What effect does US investment and lending have on South African blacks?

US corporations and the US government put forward the argument that US investment is a positive force for change in South Africa. Exxon spokesperson, Philip Wetz, said in August 1984: "We feel we can do more good by staying in South Africa." If US investment were an agent for change, then this should have been proved over the past 25 years. In fact, their presence and increasing involvement have not prevented the growth of the highly repressive apparatus of the apartheid state.

➤ An African is arrested for a pass offense every 2.5 minutes. This is a crime that no white can ever commit. Pass laws govern all movement of Africans in and out of the urban areas.

➤ A computer system has been installed in one bantustan that classifies black workers as "trouble makers," "good boys," "trade unionists," etc., and monitors the migration of workers into the urban areas.

➤ According to Amnesty International "torture is extensively inflicted on political detainees, and ... the Government sanctions its use." Over 65 detainees are known to have died while being held in solitary confinement, without charge, trial, without access to family or lawyers. In 1977 police killed Steve Biko. Black Consciousness leader, while in detention. In 1982, trade union leader Neil Aggett died while in detention.

➤ Over 4,500 people have been convicted since 1961 under the Suppression of Communism Act (1950), the Unlawful Organization Act (1960), the Public Safety Act (1933), the Terrorism Act (1967), and the General Law Amendment Act (1962). Recently the Internal Security Act (1982) supplanted some of these acts and entrenched repressive measures. It allows for detentions without charge or trial and the outlawing of any organization or publication.

➤ In the 1984 protests sparked by fraudulent elections under the new constitution, over 160 anti-apartheid demonstrators were killed between September and mid-November. In one African township, unarmed residents found themselves sealed off by 7,000 troops and armed police who proceeded to conduct house to house searches and arrest residents.

The apartheid regime uses funds from corporate taxes and inputs of foreign equipment such as computers, cameras, and police trucks to keep track of pass offenses and political detentions, and to keep the repressive machinery of the South African state running smoothly. US companies help fill the gap between what the South Africans can themselves provide, and what they need.

5. What do South African blacks say about foreign investment?

"Those who invest in South Africa," said Bishop Desmond Tutu, winner of the 1984 Nobel Peace Prize and head of the South African Council of Churches, "should not think they are doing us a favor; they are here for what they get out of our cheap and abundant labor and they should know that they are buttressing one of the most vicious systems." (1984)

There is of course a variety of opinion on this subject within the black community of South Africa. Those who advocate increased foreign investment are most often members of the tiny black middle class or are employed by a branch of the government such as the civil service of one of the bantustans. They are people who have become dependent on the system and fear the cost of fundamental change.

According to the Internal Security Act (1982), any person in South Africa or outside who supports divestment commits the crime of "subversion" (terrorism) under the predecessor law, for which the penalty is up to 20 years in prison. In spite of the danger, leaders of the trade union movement, the South African churches, and black political organizations continue to call for divestment.

FOSATU, the largest federation of black trade unions, declared in its 1984 International Policy Statement: "It is FOSATU's considered view that the pressure for disinvestment has had a positive effect and should therefore not be lessened. FOSATU is definitely opposed to foreign investment that accepts the condition of oppression maintained by this regime." This position was thoroughly debated at all levels before being adopted by the National Executive.

The South African liberation movements have consistently called for divestment. As long ago as 1959, Nobel Peace Laureate Albert Luthuli, then president of the African National Congress (ANC), urged the international community to impose economic sanctions on South Africa. He argued that: "The economic boycott of South Africa will entail undoubted hardship for Africans. We do not doubt that. But it is a method which shortens the day of bloodshed, the suffering to us will be a price we are willing to pay."

Stating it strongly, Steve Biko, shortly before his death, said, "The argument is often made that the loss of foreign investment would hurt blacks the most. It would undoubtedly hurt blacks in the short run, because many of them would lose their jobs. But it should be understood in Europe and North America that foreign investment supports the present economic system of injustice . . . We blacks are perfectly willing to suffer the consequences! We are quite accustomed to suffering."

6. What is the most effective way to achieve corporate withdrawal?

Many hundreds of millions of dollars worth of investments and bank deposits have already been affected by the divestment campaign.

Since the State of Connecticut passed its South African divestment law in September 1982, securities in twenty-five corporaions who were found not to be in compliance with the State's South African divestment law, have been sold. Philadelphia's action involved the divestment of over $65 million, and Massachusetts, $90 million. Since July 1984 the City of Boston and New York City's largest pension fund have begun a divestment process which will move nearly $700 million in stocks and bank deposits from companies involved in South Africa.

By late 1984 divestment legislation had been passed by five states and 20 cities. Legislators have been joined in divestment action by trade unionists, investment experts, students and
church activists to end American complicity with the apartheid regime.

In 1977, this campaign was already having an effect. The Polaroid Company, after 29 years of involvement in South Africa, pulled out. It did so only after it had nominally attempted to improve working conditions. Polaroid took the step in direct response to public disclosure of surreptitious sales of Polaroid products to the South African government and military by the South African distributor. However, this move followed a vigorous campaign mounted against the company by Polaroid workers and anti-apartheid groups, pressuring them to withdraw.

Few corporations are likely to withdraw from South Africa until there are economic reasons to do so. Institutional investors and pension funds hold a key to this withdrawal, because of their economic power. Many state and city governments, trade unions and churches are acting in concert to use this economic power and exert pressure, and it is being felt. The corporations are fighting back. The US Chamber of Commerce in South Africa, along with a group of major South African companies, placed a 10-page supplement in the October 1984 Fortune magazine, acknowledging the "gathering momentum" for divestment. It is this pressure that can ultimately lead to corporate disengagement.

7. What would be the effect of disengagement by US corporations and banks?

"Each trade agreement, each bank loan, each new investment is another brick in the wall of our continued existence," stated former South African Prime Minister John Vorster.

US investment provides "the bricks" for certain key sectors of the economy. US firms control 75 percent of the computer market, 23 percent of the automotive market, almost 40 percent of the petroleum producers market, and a sizable share of the electronics market.

Disengagement would be more than a major psychological blow to the confidence of the ruling minority government. The effect of the cut-off of advanced US technology would be enormous.

In August 1984, South Africa's leading financial journal, The Financial Mail, commented in a long review of the divestment campaign that "the arguments for foreign disinvestment from South Africa are intensifying - particularly in the US. Though there is no cause for real panic, it would be unwise to disregard the psychological impact of the moves and the effect they could have on the economy." A cable sent in October 1978 by the US Embassy in Pretoria to the State Department confirmed that "a grave problem would be the supply of spares for existing high technology equipment. SAG [the South African government] has built up a reserve of stocks of more than one year which will act as a cushion, but there is no possibility all replacement parts for imported goods which keep the economy going ("even office elevators") can be locally produced."

The US Embassy message went on to point out that lack of access to foreign technology would cripple South Africa, and that large corporations are intent on countering any sanctions measures. "Multinationals, including US subsidiaries, are determined to undercut any sanctions action and have already made plans to camouflage their operation through subterfuges arranged with affiliates in other countries."

8. Is South Africa the place for prudent investment?

According to the managing director of Goodyear Tire and Rubber Company's South African subsidiary, "Foreign companies are going to be the target. That is where dissident blacks will focus. We are right in the tinder box."

The appeal of high profits and fast growth on investment is offset in South Africa by the failure of the government to institute desperately needed labor reforms. Black unemployment and underemployment are estimated at 25 percent creating what the London Economist has called "a time bomb of discontent and revolution-fodder."

These factors have already pegged South Africa as an economic risk. BERRA, which specializes in risk analysis for international corporations, has warned that "operational and socio-political problems will become more acute throughout the 1980's. Therefore, no long term commitments to South Africa are recommended. " It sees a decline in the Operational Risk index to "high risk" within five years, while the Political Risk index will deteriorate to the "prohibitive risk" category in the +5 years forecast.

The conditions in South Africa together with pressure from legislators, anti-apartheid groups, churches, universities and other institutional investors in the US make up what has been labeled "the hassle factor." All these factors are making US corporations wary. As Ian Leach, general manager of Caterpillar Africa warned in 1980, "We are secure here for five years. Up to ten years it is a matter of caution. After that it is anybody's guess."

9. Are the Sullivan principles an alternative to withdrawal?

When Ford Motor Company, the largest US employer of black workers in South Africa, asked its workers what they thought of the Sullivan principles, they responded with a hard-hitting four-page document. The Sullivan principles are a "toothless package" and a "piece-meal reform that allows this cruel system of apartheid to survive," the document stated: "... The Code does not demand apartheid to be abolished, but merely to modernize and ensure its perpetuation." The Sullivan principles are a voluntary code of conduct for US firms operating in South Africa. Drafted in 1976, they call for non-segregation in the work place and fair employment practices. Institutions which have been called on to divest began using the principles to judge companies' performance, with signing of the principles taken as an indication of sufficiently good intentions as to eliminate any reason for action.

In 1984, 122 of the 350 US companies operating in South Africa were signatories of the six principles. US corporations employ 66,000 workers, fewer than one percent of all working people in South Africa. Thus, even if the principles were practiced they would affect an insignificant number of workers.

More important, the Sullivan principles make no demand for
change in the fundamental structure of apartheid, no demand for black political rights. Stated Emima Mashinini, Secretary of the Commercial Catering and Allied Workers Union of South Africa: "This Manifesto is just good cosmetics for the outside world. To us trade unionists, we see no difference between American and South African companies."

Appreciating the fact that the Sullivan principles provide the companies with an opportunity to deflect criticism, many firms were quick to jump on the bandwagon. One subsidiary of a US firm explained that it held off signing for some time — until it realized that "the principles were being used to pally critics in the States."

10. **What are the financial implications of divestment?**

"We here in Massachusetts are proud to have been the first state in the nation to vote to sell from our public pension fund portfolio all those investments in firms doing business in South Africa. ... It has been our experience that divestiture makes not only a strong moral statement against apartheid but divestiture has proven to have had no significant impact on our pension earnings ... . Timely and careful divestiture can result in net increases in pension earnings." (Letter from Michael S. Dukakis, Governor of Massachusetts, August 1983.)

This experience of the State of Massachusetts has been repeated by other states and cities divesting from companies that are involved in South Africa. For instance, the Director of the Board of Pensions and Retirement for the City of Philadelphia stated in 1984 that: "We have consistently achieved or bettered our assumed actuarial investment return rate of 9 percent in our transactions divesting our portfolio of fixed income securities of firms doing business in South Africa."

The University of Wisconsin Trust Fund found that "divestment of South Africa-related stocks has not hampered or limited our ability to find suitable sources of investment." Michigan State University found in June 1980, within months of passing divestment resolutions, their portfolio had earned an additional $1 million.

Joan Bavaria, President of Franklin Research Company, has pointed out that fears that divestment will prove costly are groundless. "Rather, [studies] have shown that over time South Africa-free companies have outperformed the restricted stocks with a minimal amount of added risk." This has been borne out by studies conducted by Chemical Bank, the US Trust Co., and Trinity Investment Management Corporation.

Hence, Robert J. Schwartz, Vice President of Shearson/Amex Express and an expert on socially responsible investment, stressed in 1984: "A decision about divestment should not be cluttered by arguments in regard to investment performance, but be based upon the political, moral issues and as to whether the decision makers believe that divestment will have an effect on ending the system of apartheid."

In September 1984, the Connecticut State Treasurer, Henry Parker, reported that "Connecticut has been able to earn money by selling the holding of socially irresponsible companies. Corporate America must take a strong stand against racism wherever it exists and our divestment law is an important incentive for them to do just that. What is more, we have shown that it is profitable to be socially responsible."

11. **Who is joining the divestment campaign?**

The list of states considering some divestment action grows steadily. By mid-1984 the number had reached 29, of which Connecticut, Massachusetts, Maryland, Michigan and Nebraska have passed divestiture legislation. The campaign continues to gain ground. In 1984 the Executive Council of the National Conference of Mayors passed a resolution calling for cities to divest their pension funds. New York City is considering selective purchasing legislation to make it illegal to purchase any products that originate in South Africa and to give preferential treatment to purchases from US companies which do not invest in South Africa. Numerous other cities are poised for positive action.

The campaigns in the states and cities are supported by a wide coalition of groups including significant trade unions. Unions that have taken a position against economic involvement in South Africa include the Amalgamated Clothing and Textile Workers Union, United Auto Workers, American Federation of State, County and Municipal Employees, United Steel Workers of America, National Education Association, United Electrical Workers, International Longshoreman and Warehousemen's Union, District 1199 RWDSU, District 65 USW, and Fur, Leather and Machine Workers Union UFCW/UAW.

Said UAW Vice-president Don Ephlin, "We cannot tolerate public money being invested in a country which practices institutionalized racism through its laws."

Churches which have voted to end their banking or corporate links to South Africa include the National Council of Churches, the American Lutheran Church, Disciples of Christ, the United Methodist Board of Global Ministries, the Reformed Church in America and the American Friends Service Committee.

At least 40 universities have taken either full or partial divestment action. Those that have passed resolutions to sell all shares in corporations doing business in South Africa include the City University of New York, Antioch and Hampshire Colleges, Ohio University, Michigan State, Indiana Central and the Universities of Massachusetts, Oregon and Wisconsin.

12. **What kinds of alternative responsible investment exist?**

"There is a mounting consensus that pension fund investments cannot protect retirees' benefits unless they protect employees' jobs and economic interests as well ... Investments ... that create jobs, build houses, and return a fair yield could be a model for government pension systems." (Edmund G. Brown, Jr., Governor of California.)

Many of the investors concerned not to support apartheid have not chosen to re-direct their funds to achieving particular social goals. But some have seen the need to use reinvestment as such an opportunity.

Examples of such investment include the Kansas Public Employees' Retirement System program called "Kansas Funds for Kansas Jobs." In the program, the retirement system buys the guaranteed portion of SBA loans. By making capital available for small businesses the economy is improved and jobs are created. Other investments available include affordable housing, health care and human services, and alternative energy resource conservation. The interest in public pension fund investment is growing rapidly and new alternatives to investment in South Africa are multiplying.

---

Stephanie Urdang, Research Director
December 1984

Special thanks to Karen Jolkovski for proofreading and Jim Arts for layout.

The American Committee on Africa
198 Broadway, New York, NY 10038 (212) 962-1210

© American Committee on Africa