The Heritage Foundation Backgrounder

No. 427 | The Heritage Foundation 214 Massachusetts Avenue N.E. Washington, D.C. 20002 (202) 546-4400

April 30, 1985

AN INVESTMENT STRATEGY TO UNDERMINE APARTHEID IN SOUTH AFRICA

INTRODUCTION

Few Americans, if any, defend South Africa's brutalizing racial separation and discrimination policies that are called apartheid. Being for or against apartheid never has been an issue. The issue is, rather, finding the best ways by which the U.S. can foster apartheid's disappearance.

Two approaches are advocated for achieving this, as was clear during last week's House and Senate hearings on South Africa. One approach is called "disinvestment." It would put pressure on American companies with investments in South Africa to pull out of that country. The objective of this strategy is to so threaten the South African economy (already gripped by a severe recession) that the Afrikaner-dominated white government would recognize that apartheid is too costly to sustain and move swiftly to grant full political rights to all South Africans.

The second approach calls for the opposite kind of strategy, described by the Reagan Administration as "constructive engagement." This involves extensive economic and diplomatic contact with South Africa to dissipate the siege mentality of Pretoria and to foster gradual change.

Momentum is growing in Congress for legislation based on the disinvestment approach. Frustrated by what they interpret to be the inadequate success of the Administration's policy of constructive engagement, many legislators feel that persuasion never will achieve significant reform. The only language Pretoria will understand, they argue, is the threat of U.S. investment boycott.

Disinvestment, however, would be a serious mistake, for it would penalize South Africa's blacks and actually make the dissolution of apartheid more difficult. Disinvestment is based on a misunderstanding of Afrikanerdom, a misreading of the process of change in South Africa, and a historically unjustified confidence in the effectiveness of boycotts. Disinvestment would have at most a marginal impact on South Africa's economy. It probably would prompt Pretoria to become more stubborn. And even if disinvestment did begin to bite, it simply would slow the workplace reforms pioneered by the progressive American companies in South Africa and weaken black unions, while strengthening the position of reactionary white workers. It would undercut the reformist English-speaking business community and the media it supports. Most important, disinvestment could blunt the economic forces that are slowly, but inexorably, undermining apartheid's foundations.

It is the unstated premise of disinvestment that, in the political context of South Africa, this policy will achieve reform only if the country is polarized further, leading to violent and bloody revolution--out of which, perhaps, a peaceful and stable democratic state will emerge. The trouble is, post-colonial Africa offers no precedent for this.

Nor is constructive engagement, albeit much sounder than disinvestment, a sufficent policy. Rather than relying only on the diplomacy of such an effort, the Administration should fashion a more activist strategy recognizing that it is economic growth, coupled with the color-blind employment practices of U.S. companies, that poses the greatest threat to apartheid. Over 300 U.S. companies currently have subsidiaries in South Africa, including IBM, Ford, General Motors, Mobil, and Xerox. The $2 billion in American assets in the country represents 20 percent of total foreign direct investment. American investment dominates such areas as oil and computers.

Constructive engagement should be supplemented by a strategy of "investment leverage." Instead of disinvestment, increased American participation in the South African economy should be encouraged. The U.S. government, meanwhile, should provide special assistance through American companies to upgrade the educational and management skills of black South Africans and help them form businesses of their own. Assistance also should be given to American trade unionists to train black union organizers. Finally, technical assistance and encouragement should be given to speed the recent decision by the South African government to return to the private sector key segments of the nationalized economy, thus taking control from Afrikaner bureaucrats.

WHY DISINVESTMENT WILL NOT WORK

The disinvestment strategy forms the heart of recent congressional initiatives to pressure the government of South Africa. These efforts misread the economics and the politics of that country.

The Economics of Disinvestment

The theory of disinvestment is that, by threatening to block American investment in South Africa, the local economy would face such a crisis that Pretoria would be forced to make major political concessions to blacks--particularly as South Africa already suffers from a painful recession. While this sounds plausible in theory, there is little reason to believe that disinvestment would expose a South African economic Achilles heel.

A recent major analysis of the South African economy by The Economist (of London) concludes that the economic effect of U.S. disinvestment would be small and could conceivably boost the country's economy.[1] The journal points out that the South African recession already has hit investment hard for purely commercial reasons and that new American capital inflows have fallen by 10 percent in just the last year. Total investment from outside South Africa has "slowed to a trickle," falling below $100 million a year. Consequently, "The disinvestment lobby is working on a tiny margin of the South African economy." Moreover, the disinvestment rationale ignores totally the possibility of South African retaliation. Three times greater than foreign investment going into South Africa are dividends sent abroad by firms in South Africa. Disinvestment thus could be countered by a dividend export freeze by Pretoria, which would improve South Africa's capital balance of payments and free more domestic funds for investment.

Concludes The Economist:

> Disinvestment would be once-for-all Marshall aid. It is hard to comprehend the widely held view in the anti-apartheid lobby that this would traumatize the South African economy: in the short term, it would probably boost it.[2]

The British journal also points out that, if U.S. companies were forced to withdraw from South Africa, the action would threaten the employment of 120,000 blacks, many of whom have learned new skills and earned promotions in progressive, desegregated American companies. If these firms closed, many of their black employees would be liable for deportation to the tribal homelands. More likely, the South African government would nationalize the companies or allow local firms to take them over. Notes The Economist, "It is hard to see how replacing an American personnel director with an Afrikaner one is an advance for anti-apartheid."[3]

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1 "The All-American Leverage Game," The Economist, March 30, 1985, pp. 31-32.
2 Ibid., p. 32.
3 Ibid.

The principal effect of disinvestment would be to erode the economic leverage of blacks. Black South Africans comprise about three-quarters of the country's workforce and half its skilled labor. As the economy has grown, shortages of white labor have allowed blacks to force themselves into occupations once reserved for whites. Black trade unionism also has grown rapidly with the expanding economy. Membership has reached almost half a million. After Pretoria recognized the inevitable and legalized black unions in 1979, black wages doubled over the next three years, and black trade unionists began to flex their political muscles.

The Politics of Disinvestment

Disinvestment may be favored by black organizations and liberals in the U.S., but polls reveal that it is opposed by urban blacks in South Africa by about three to one. It should be no mystery why South African blacks strongly support the presence of foreign firms that have done so much to improve the economic and social status of their nonwhite workers.

South Africa's black National African Chamber of Commerce and Industry, for instance, sent a memorandum to Senator Edward Kennedy during his recent visit to South Africa, attacking disinvestment as inhibiting economic growth, "which is a powerful catalyst in the process of peaceful social and political reform in the country." The same view was expressed by Chief Gatsha Buthelezi of the Zulu tribe, a fierce opponent of apartheid. He called disinvestment "tactical madness" during a February visit to the United States.

Those South African blacks who oppose disinvestment are denounced by South Africa's militant black leaders and their American allies for two reasons. First, to be successful politically they must seek to persuade Congress and the American people that the choice is simple and stark--either one supports "the blacks" in South Africa, who are supposedly unanimous in their support of disinvestment, or one supports white racism. To recognize the deep disagreement among South African blacks regarding strategy would make it easier for Americans to oppose disinvestment. Second, some advocates of disinvestment seem to favor revolutionary change in South Africa. For them, there is sense to the old revolutionary dictum: the worse, the better. As such, the fact that disinvestment would hit blacks harder than whites is a virtue, since it would drive blacks into economic despair and militancy. Thus well-meaning supporters of disinvestment must come to see that this policy would make conditions worse for blacks, not better, and that the process of change it envisions is based on confrontation and violence, not peaceful reform.

The efforts of black and white moderates in South Africa would be weakened by disinvestment. In particular, it would reduce the corrosive effects on apartheid of black advancement within U.S. companies. And it likely would reduce the financial support given by the English-speaking business community to the opposition media. Recently the Rand Daily Mail, one of the strongest critics of apartheid, was forced to close for economic reasons. Disinvestment threatens other English-speaking opposition newspapers by forcing a cutback in their business support. The net effect of disinvestment, therefore, would be not to force Pretoria to the negotiating table, but to undermine those in South Africa who support peaceful change--leaving violence as the only available option.

The politics of Afrikanerdom reinforces the argument that disinvestment will fail. The history of South Africa has been characterized by Afrikaners seeking to retain their ethnic and social identity against outside threats--from the English, from the nonwhites, and even from erosion by industrialization. Apartheid uses the crude approach of partition. Within the white business community, extensive regulation and nationalization has been used by the bureaucracy--dominated by Afrikaners--to try to hold back what they see as the corrupting power and influence of the English-dominated business class.

But the Afrikaner community is not monolithic. There are those known as "verligtes" (who favor sharing power with the blacks and see reform as both inevitable and desirable) and the "verkramptes" (who support the traditional Afrikaner commitment to apartheid with no concessions). And though the reforms of South Africa's President Pieter W. Botha seem minimal to many American observers, they indicate strong verligte influence and have led to a wrenching split in Afrikaner politics.

To be sure, the Botha government is extremely cautious and as stubborn as any Afrikaner in the face of outsider pressure. Yet Pretoria is slowly adapting the law to accommodate economic and social pressures within the country. It is now widely accepted that the blacks are not temporary workers but permanent urban residents. The new constitution, bitterly denounced by verkramptes, accepts that some nonwhites must have a say in national decisions--a slide toward democracy that may be very hard to reverse. Most recently, Pretoria made the dramatic announcement--to the horror of the verkramptes--that it will repeal the laws forbidding interracial marriage and sexual relations. "Like it or not," said an editorial in the Cape Town Argus, "their removal must of necessity affect the entire edifice [of apartheid] in time to come." Days later, Botha announced not only that blacks would be permitted to buy houses in the black townships of "white" South Africa, but that they would not necessarily lose their South African citizenship if their nominal homeland were granted independence--implying an acceptance that blacks are a permanent part of South African society.

The political irony of disinvestment is that, by forcing a political confrontation within the Afrikaner community, it could slow down, and even reverse, the growing realization in white South Africa that the economic and social changes underway should be codified by law. The Botha government is said by many South Africans to be reforming by "stealth." Each legislative retreat is shrouded in vague and evasive statements, so that the Afrikaner community is not excessively alarmed. To the outside observer, of course, this seems like a lack of commitment, but it may be the only strategy that will avoid a verkrampte backlash. For Pretoria's dilemma is that, to satisfy the demands of the disinvestment lobby in Washington, the Botha government would have to make its actions so clear that Afrikaner reaction would eliminate any chance of effecting the intended reforms.

THE MEASURES BEFORE CONGRESS

To date, 21 bills concerning South Africa have been introduced in Congress. The majority of pending bills contain a common theme: legislative sanctions to restrict or halt private U.S. economic activity in South Africa. Examples:

Bill introduced April 24 by Senator Richard Lugar (R-IN).

This bill incorporates an earlier bill introduced by Senator Charles Mathias (R-MD) and approved by the Foreign Relations Committee. It has the support of the Administration.

The measure would require the President to report by March 1987 on whether South Africa has made "significant progress" towards ending apartheid, including: steps to end the pass laws restricting the movement of blacks, increasing labor union rights, ending the migrant labor system, and improving housing for blacks. If the President determines that significant progress has not been made, he would have to recommend to Congress which of four sanctions should be applied against South Africa: bans on new commercial investment, bank loans, the importation of Krugerrand gold coins, or the sale of computers to the Pretoria government.

In addition, the bill would create a $15 million scholarship fund for blacks, require all U.S. companies operating in South Africa to abide by the Sullivan Principles. The Sullivan Principles are a voluntary code of business conduct that commits signatories to desegregate the workplace, remove racial distinctions in pay scales, and step up training and promotion for blacks. Companies abiding by the code employ approximately 70 percent of all workers in American firms located in South Africa. The bill also would provide assistance through American agencies to black-owned businesses in the country, and increase to $1.5 million the Kassebaum Human Rights Fund for victims of apartheid.

S. 147, introduced by Senator William Proxmire (D-WI) and H.R. 632, introduced by Representative Buddy Roemer (D-LA).

This bill would prohibit new U.S. investment in South Africa, require compliance with specific employment practices by U.S. firms in South Africa, block U.S. bank loans, outlaw Krugerrand imports, reimpose Carter Administration trade restrictions, and prohibit exports to South Africa of U.S. nuclear-related technology.

H.R. 1460, introduced by Representative William Gray (D-PA) and S. 635, introduced by Senator Edward Kennedy (D-MA).

This bill would prohibit U.S. bank loans to the Pretoria government and to U.S. firms operating in South Africa, ban new U.S. investment in South Africa, block Krugerrand imports, and block computer sales to the South African government.

Waivers on these restrictions could be obtained for twelve months, if the President and Congress determined that adequate progress had been made in one or more of the following areas: housing for black workers, easing of employment restrictions on blacks, eliminating the homelands and the policy of denying South African citizenship to blacks, ending residence restrictions, negotiating political participation for all races, and the freeing of political prisoners.

H.R. 1595, introduced by Representative Robert Walker (R-PA).

This measure applies to all countries, not just South Africa. Its far-reaching provisions would prohibit the import of goods produced by slave labor, direct the U.S. to oppose International Monetary Fund loans to countries allowing the trafficking of illegal drugs, deny U.S. most-favored-nation status to countries that prevent a free press, direct the U.S. to demand Soviet compliance with the Helsinki Accords, require the U.S. to seek a full accounting of international prisoners of conscience, prohibit U.S. economic aid to states that vote against the U.S. in the U.N. more than 85 percent of the time, stipulate that U.S. foreign assistance promote private sector initiatives, while blocking U.S. economic and military assistance to any state that denies free press access or promotes international drug trafficking or terrorism.

In the specific case of South Africa, the Walker bill would prohibit federal contracts or economic aid to companies that did not implement the Sullivan Principles by January 1987, unless the President certifies that South Africa has made significant steps to end apartheid. The Walker bill would repeal the Clark Amendment, which prohibits U.S. aid to national liberation forces in Angola. The measure also would express the sense of Congress that a Namibian settlement must include the withdrawal of all foreign forces from Angola, that the President should recognize UNITA as the legitimate government of Angola, and that free elections in Namibia need not be predicated upon the mandatory participation of any specific political organization.

ACCELERATING REFORM IN SOUTH AFRICA

The Process of Change

Apartheid is already being eroded by economic growth, and this will continue. Foreign investment and general economic expansion do not prop up apartheid. The modern version of apartheid, created in 1948, has not been able to stem the flow of blacks into white urban areas, an influx that accompanied industrialization. This process of industrialization and black urbanization has doomed the Afrikaner vision of separate development, because it has made the white community dependent upon nonwhites and forced whites to accept that blacks are a permanent and integral part of South African society.

South African industry, boosted by foreign investment and the presence of overseas firms, has been instrumental in translating pressures stemming from economic growth into political reforms that have hammered nail after nail into apartheid's coffin. After the urban riots of 1976, for instance, business groups formed and funded the Urban Foundation, which has acted as a vehicle for physical improvement in the black townships and as a catalyst for political reform. The Foundation played a key role in pressing the government to grant 99-year leasehold rights in black townships--an explicit acceptance of permanent black urbanization. The Foundation also can claim credit for the government's recent announcement that it will allow blacks to own freehold property in the townships.

Similarly, under pressure from "investor responsibility" groups in the U.S., many American firms in South Africa have helped to accelerate reform by adopting the Sullivan Principles. Many American firms also have fostered the creation of small black enterprises.

Perhaps most important, the growth of black trade unionism, aided by U.S. companies, has altered decisively the complexion of labor power. Rapidly expanding black unions have improved markedly the economic status of blacks and formed a critically important new power base. They also act as an increasingly effective counterforce to the white trade unions, which have been among apartheid's strongest supporters since they see black labor as a challenge to their privileged economic position. Economic growth and unionization thus have forced significant changes in the labor laws that restricted certain jobs to whites.

It is these forces arising from economic growth--not pressure from outside--that sound a death knell for apartheid, says South Africa's leading industrialist and white liberal opponent of apartheid, Harry Oppenheimer:

> The South African government is not going to surrender to such pressure [of disinvestment] and the only effect is to compromise the successes of the past....It is just

> because the South African economy has moved forward rapidly that the original apartheid policy has had to be scrapped and that some changes for the better have come about. The fact is that the continued domination of the blacks by the whites could only continue if the economy were kept small enough for all, or anyhow most, skilled jobs to be reserved for whites as they used to be in the past.[4]

Washington Post columnist William Raspberry apparently draws similar conclusions. People of widely differing vantage points, writes Raspberry, who is black, seem to agree that "no matter what happens to the white power structure of South Africa, that country's blacks will not really be free until they are able to control their economic destiny; that economic development might even accelerate their potential enfranchisement; and that hurting the master doesn't necessarily help the slave."[5]

Adding "Investment Leverage" to Constructive Engagement

The Reagan policy of constructive engagement recognizes that encircling South Africa with an economic iron curtain would be difficult and counterproductive. The Reagan Administration correctly sees American investment as a critical element in the campaign for political change in South Africa. Yet constructive engagement is essentially diplomatic in nature, and thus its successes will be confined to reforms that can be induced by gentle persuasion or mild threats.

More is needed. The Administration and Congress should reject the call for disinvestment and instead attack apartheid's soft underbelly by encouraging even more U.S. investment in South Africa, thereby speeding up the corrosive effect of economic growth on the foundations of apartheid.

Such a policy of "investment leverage" requires a number of legislative and administrative actions. Among them:

1) Encourage American firms to abide by a modified version of Sullivan Principles.

Drafted seven years ago by the Reverend Leon Sullivan, a black minister and a director of General Motors, the Sullivan Principles commit signatories to desegregating the workplace and to offering equal pay. Critics argue, however, that the code is ill-defined. Many firms complain bitterly that the system employed to rate firm compliance is unduly subjective, meaning progressive

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4 "Apartheid Under Pressure," speech to the Foreign Policy Association, October 1984.

5 "Three on South Africa," Washington Post, April 15, 1985.

firms sometimes are accused unfairly of noncompliance.[6] Others say recent revisions in the code pushed by Reverend Sullivan, which would require companies to take political actions to end apartheid laws, could force businesses into a damaging head-to-head confrontation with Pretoria, reducing their ability to chip away at the laws.

Whatever the problems, the Sullivan Principles form a useful set of "rules of engagement" for a policy designed to weaken apartheid by foreign investment. But it has been the economic forces of South Africa's labor market and moral pressure from American shareholders that have made U.S. firms in South Africa a major force against apartheid.

2) Encourage nonwhite trade unions.

U.S. assistance, perhaps as grants from the National Endowment for Democracy, should be provided to U.S. companies and to American trade unions to train black South African union officials. Funds similarly should be made available for business-operated training programs to improve the work skills of South African blacks. Strong black unions and upgraded worker skill-levels, within a growing economy, will speed the economic erosion of apartheid.

3) Foster the creation of black businesses.

A number of U.S. companies, including IBM, have launched programs to train small business owners. A strong and sophisticated black business class will help the gradual shift of economic power from the white to the nonwhite community. The U.S. should provide matching grants to companies willing to undertake such business training programs.

4) Support privatization of state-controlled industries.

In his March 17 budget statement, South African Finance Minister Barend du Plessis committed his government to a widespread transfer of government-owned assets to the private sector. The implications of this could be considerable. The South African economy is a version of state-managed capitalism, rather than genuinely free enterprise. The government has extensive business holdings, including all major utilities, the principal airline, the telephone system, trucking firms, many hospitals, and the coal-oil conversion industry.

The privatization commitment arises from the financially strapped government's need to raise revenue without massive tax increases. Its result will be that key segments of the economy,

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6 Mark Huber, "For U.S. Firms in South Africa, The Threat of Coercive Sullivan Principles," Heritage Foundation Institution Analysis, No. 30, September 12, 1984.

now controlled by Afrikaner bureaucrats, will be put in the hands of private business--further eroding the government's power base. If privatization is extended to service areas, such as health, education, and transportation, it could also help reduce racially based inequities in allocation, since competitive pressure would encourage privatized firms to make service decisions on the basis of commercial considerations, rather than according to the tenets of racial separation. It is difficult for the U.S. to speed the privatization process directly. But in concert with the British government, which is undertaking a widespread program of privatization, Washington could help coordinate technical assistance both to Pretoria and to potential buyers of assets in South Africa.

5) Encourage increased U.S. investment.

Through its public statements, the Reagan Administration should make the case that U.S. firms in South Africa are an anti-apartheid force. The White House should create an opinion climate in the U.S. that applauds rather than condemns U.S. firms that set up plants, offices, and other workplaces in South Africa.

CONCLUSION

The disinvestment campaign rests on a faulty analysis of the economics and politics of South Africa. The economic impact of disinvestment would be marginal at best. Its main effects would be to strengthen Afrikaner resolve, weaken the growing economic power of blacks and anti-apartheid segments of the business community, and reduce the pace of change stimulated by economic growth. Disinvestment, therefore, would strengthen, not weaken, apartheid.

By contrast, Reagan's constructive engagement is a sensible diplomatic strategy aimed at eroding apartheid. This now should be bolstered through a strategy of investment leverage. By recognizing that strong economic growth, not disinvestment, will undermine apartheid and strengthen non-Afrikaner economic power while weakening Afrikaner political power, the U.S. would encourage gradual, but peaceful and irreversible, change.

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