

ECONOMIC IMPLICATIONS OF SANCTIONS AGAINST SOUTH AFRICA

A study of the Starnberger Institute for research into global structures, developments and crises. (Munich, West Germany)

Commissioned by the Evangelical Church in Germany (West).

The study investigates mainly the following issues:

- can sanctions be successfully introduced and maintained;
- the probable economic effects of sanctions;
- under which circumstances can sanctions be considered acceptable, even if such sanctions might initially disadvantage parts of the majority of South Africans.

JULY 1987

Attached please find the conclusions of the study. A complete translation will be available in the near future.

#### D. Conclusions

##### 1. The consequences of effective sanctions

The analyses set out in Sections A-C have shown:

- that the South African economy is highly vulnerable to targetted international sanctions;
- that by wielding effective sanctions a small group of only six countries (USA, UK, Federal Republic of Germany, Japan and Switzerland) has the power to chop through one of the apartheid regime's most vital supports - its integration into the world economy;
- that as far as these countries are concerned, effective sanctions would entail a fairly small package of measures with negligible overall negative effects on their own economies.

Rigorous application of any one of the possible measures in the fields of international credit, foreign trade and the activities of foreign-owned companies in South Africa would serve to destabilise the apartheid regime.

For example, a refusal to rollover South African loans together with a ban on new money would swiftly push South Africa into international insolvency and provoke massive capital flight, leading to a fiscal crisis of the state, a cessation of investment and an exodus of businesspeople and experts - in all, to an irrecoverable weakening of the apartheid regime.<sup>1</sup>

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<sup>1</sup> Following the readiness of South Africa's creditor banks to reschedule South Africa's foreign debts in 1986 and 1987, wittingly or unwittingly contributing to the fact that South Africa's financial crisis did not develop into a governmental crisis, effective sanctions in this sphere would have to consist if not in a revocation of the rescheduling agreements, at least in a ban on new loans and a refusal to allow rescheduling in the future.

The denial of new loans to South Africa combined with effective sanctions by the six countries named above in the fields of foreign trade and foreign investment (primarily a ban on imports of South African mining products, and of supplies of oil, capital goods and 'security' products to South Africa backed up by the mandatory cessation of operations by foreign firms in such key areas as mining, energy, capital goods and banking) would soon bring about the complete economic collapse of the apartheid regime.

The imposition, even the credible threat, of these governmental sanctions would, in turn, exert such a negative influence on other economic activities with or within South Africa that many companies would curtail or terminate their South African operations simply on economic - as opposed to legal or political - grounds. This would further shorten the period through which the apartheid regime could survive in the face of earnestly applied sanctions.

A combination of refusing credits, blocking foreign trade and cutting or stopping production by foreign companies would have two immediate effects on South Africa's apartheid economy:

- a cutting off of inputs (capital goods, energy, technology) and sources of finance (export receipts, profits, credits) which, combined with access to cheap 'black' labour within the apartheid system, are essential for the reproduction of South Africa's export-orientated extractive economy;

- a cutting off of inputs (equipment, energy, technology) and sources of finance (state receipts, credits) vital for the functioning of the state coercive apparatus required to maintain the apartheid system.

The immediate economic effects of effective sanctions on South Africa's population would be very different for the white minority and the black majority:

- for the white minority, effective sanctions and the consequent collapse of South Africa's integration into the world economy - one of the pillars of the apartheid economy - would rapidly lead to a dwindling of their privileges and a deterioration in their former high standard of living. The intended political message for the white minority would be - that the two pillars of their affluence and privilege, apartheid and integration into the world economy, can no longer co-exist.
- for the black majority, the negative effects of sanctions would, taken as a whole, be very minimal indeed. In fact, by impeding the apartheid system and ultimately rendering it unworkable, sanctions would open the door to a much more hopeful prospect for the black population.

This does not overlook the fact that effective sanctions would mean job losses and unemployment amongst those of South Africa's black majority population currently in employment. (Conversely, sanctions would also enlarge the 'scope' for alternative employment opportunities 1). However, the basic economic and political structures of the apartheid economy have been responsible for more unemployment in recent years, and will continue to create more unemployment in the future, than would be caused by any of the possible short-term effects of effective sanctions.

Apartheid itself produces structural unemployment. The unemployment figures are quite unambiguous (see A 6). Even the Chairman of the Board of Barlow Rand ('the largest industrial group in South Africa') recently testified to the incontestable causal relationship between apartheid and unemployment when he observed:

...whereas the whites have been able to enjoy the benefits of a free market economy for the last 38 years of the national government, the blacks have suffered under a 'totalitarian socialism'. They have not been able to make decisions or own land and start businesses, sell their labour where it was needed or occupy managerial posts without considerable problems. Today, political and economic problems are so interfused that the one cannot be resolved without the other.<sup>2</sup>

Refraining from applying effective sanctions will not prevent a further steady rise in unemployment. Reducing and ultimately eliminating unemployment can only be achieved by dismantling apartheid, a task in which sanctions have a vital role to play.

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<sup>2</sup> Quoted in the Neue Zürcher Zeitung, 26 July 1986.  
(retranslated from German)

## 2. The implementation of sanctions

Sanctions in the spheres of international merchandise trade, services and capital transactions can work. One example is the generally successful monitoring of the COCOM agreements, despite much greater difficulties, which ban the export of 'security' related technologies from the West to the socialist countries. A further example is the compliance with the bans on imports, exports, loans, investments and air traffic contained in the USA's Anti-Apartheid Act. If the six industrial countries on which sanctions against South Africa ultimately depend had the political will to impose joint effective action against the apartheid regime, and if they jointly monitored observation of sanctions and punished breaches, then sanctions would be effective.

The case of Southern Rhodesia, which apparently weathered international sanctions for a number of years and was even able to record an economic boom - within limits - as a result of externally-induced 'autarky' and import-substituting industrialisation, does not prove the contrary. At that time, Rhodesia's minority regime could rely on support from its ally, South Africa, which itself had a vital interest in the outcome. A common land frontier made it easy to ship strategic items between the two countries. For a long period Rhodesia could also rely on supplies of oil and other essentials through a second neighbour, Mozambique, then still under Portugese control.

South Africa is in a much less favourable position. The various 'special relationships' which the apartheid regime has with a number of overseas countries, including Taiwan and Israel, would certainly not suffice to allow the long-term evasion of effective sanctions implemented by the leading industrial nations. Good relations with the main western industrial countries are much more important for these 'special' countries than support for South Africa, should there ever be doubt or conflict. The US Anti-Apartheid Act makes an appropriate precautionary provision: import controls will be imposed against any country which breaches US sanctions against South Africa. "Israel" has recently succumbed to US pressure and announced a 'cessation of new contracts' on arms supplies.

The fact that objective economic constraints prevent the front-line states from participating in sanctions against South Africa to the degree that they would politically wish is of virtually no consequence in the prosecution of effective sanctions. Whereas the historically inherited transport links through South Africa are of such economic importance for the front-line states that they could not afford any abrupt break in them,<sup>3</sup> conversely, for South Africa, trade with these countries is so insignificant in terms of size and composition that even a substantial

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increase in this trade would not seriously undermine the impact of any sanctions imposed by the industrialised countries.

The prospects for a major 'sanctions busting' operation by South Africa in merchandise trade, services or capital movements should therefore be seen as very meagre.

Finally, given the political will, it should not be difficult to oblige foreign companies to cease their operations in South Africa, at least in areas of strategic importance for the apartheid regime. This could be achieved through appropriate legal measures imposed by the main industrial countries.

Again, there are precedents here. The US government recently ordered the withdrawal of US corporations operating in Libya. Despite the fact that this impinged on the interests of very major US corporations, this was implemented in a very short space of time. A bill is before the US Congress which would provide for the withdrawal of US companies from South Africa (see Section C 1). Moreover, in view of the above-average profits<sup>4</sup> and rapid amortisation of investments in South Africa, there are virtually no

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companies which could not easily absorb the consequences of a mandatory withdrawal.

### 3. The task of politics

A look back at the experience of recent years, even decades, shows that a policy of pin-pricks - which has marked the cautious approach of the western industrial countries until recently and which continues to do so from the standpoint of the apartheid regime - makes very little contribution to hastening what world opinion sees as the long overdue end of the apartheid regime. Sanctions of the type applied so far, poorly conceived and coordinated, half-heartedly imposed and inadequately carried through, not only achieve nothing but serve to indefinitely postpone the demise of apartheid and simply prolong the discrimination, oppression and exploitation of the majority of the population of South Africa itself and South Africa's intimidation of, military threats to, sabotage within and economic destabilisation of its Southern African neighbours.

The international management consultancy Business International Corporation, on which we have drawn extensively above, recently observed: 'The white minority regime is still supported by strong international political and economic links. But these are slowly and perceptibly weakening.'<sup>1</sup> The issue is, however, to break these 'international political and economic links' not 'slowly and

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<sup>1</sup> Business International, 15 June 1987, p. 188. Business International was recently acquired by The Economist.

perceptibly' but swiftly and completely in order to end the violent apartheid regime. This is the task and mission of politics: more specifically, of a democratic politics which is conscious of its international obligations.

Companies cannot be expected simply to withdraw international economic support for the apartheid regime, irrespective of whether the issue is that of economic activities in South Africa or with South Africa. Companies are driven by economic, not political, criteria. They use particular political conditions, react to changed political circumstances and naturally seek to change their political environment, not for political objectives but in the pursuit of their corporate interests. Companies can only be induced to act in a politically desirable fashion - in this case, terminating any operations which amount to economic support for the apartheid regime - through binding political instructions, not moral or political appeals. This adds weight to the argument that the task of politics is to make what specific contribution it can to the removal of the apartheid regime.

For Federal Germany, and the other industrial partners of South Africa, this should initially mean at least following the example set by the USA and removing their support for the apartheid regime in the manner set out in the US Congress's sanctions legislation. Political reason also requires that the small number of industrialised

countries on which the success of sanctions ultimately turns should move to coordinate their efforts against the apartheid regime and, following the example of the Scandinavian countries, impose uncompromising sanctions which deny South Africa access to the world market and exclude it from the international division of labour.

Democracy entails acting to shape policy and politics. It is therefore a political duty of those forces which feel solidarity with the oppressed majority in South Africa - trade unions, the churches, the institutions of public opinion - to exert pressure to achieve a breakthrough which, along with the non-violent method of sanctions, will contribute to bringing an end to a regime built on violence. A politics of reason must possess a basis in power.

Sanctions alone will not suffice to replace the apartheid regime with a more humane democratic alternative. However, economic sanctions can bring the apartheid regime to its knees economically, and thus lend critical support to the front of democratic forces in South Africa. Overcoming apartheid is not only the precondition for a democratic development of South Africa itself. It would also hold out the prospect of peaceful development for Southern Africa as a whole.

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