

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 leading white 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. Discrimination on the grounds of color in South Africa is not an aberration to be depreciated and remedied, but an institution which is authorized and frequently, actually commanded by statute. It is not discrimination but integration which is expressly forbidden by the Parliament of South Africa."¹

► While Africans make up 72 percent of the population, they are allowed to live permanently in only 13 percent of the land.

► In 1979, the average monthly wage in the mining industry was \$1,056 for white workers and \$175 for African workers.

► In 1978/79 per capita spending on education was \$833 for whites and \$82 for Africans.

► In 1978 the Rand Daily Mail reported an infant mortality per 1,000 live births of 12 for whites and 282 for Africans.

► Blacks are barred from voting for or being members of the governing white parliament.

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

Speaking at the June, 1981 Conference on Public Investment and South Africa, Georgia State Senator Julian Bond said, "Among all of us who are gathered here, there is a particular group: legislators and council members, who are here as part of the responsibility of our offices because we are all sworn to uphold the public good. There certainly could be no greater good than the cause for which we gather, the advancement of the struggle for the independence of southern Africa."

Bond is just one of dozens of elected officials who is working "to facilitate the expansion of public prohibitions against the expenditure of public funds for inhuman purposes."² These legislators have been joined by trade unionists, investment experts, students and church activists to end American complicity with the apartheid regime. State and city governments and numerous institutions are involved with the issue of South Africa because of their financial holdings. This involvement is being challenged from Massachusetts to California by people who know that the economic and moral questions involved are not the exclusive province of the federal government.

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.³

US investment is concentrated in the most crucial sectors of the South African economy — automobiles, oil and energy, and computers. By strengthening the apartheid economy, US involvement increases the ability of the white government to preserve its power.

General Motors, Ford and Chrysler manufacture cars and trucks used by the police and military. Secret General Motors contingency plans prepared in 1977 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."⁴

Fluor Corporation of California, on contract with SASOL, the South African Coal, Oil, and Gas Corporation, is providing \$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 supply computers used in maintaining the pass laws and in guiding South African missiles.

Over the past eight years, US banks have loaned South Africa more than \$3 billion. The loans have facilitated South Africa's drive for self-sufficiency in strategic areas of the economy such as its iron and steel industry and its production of electricity and other forms of energy. The economic significance of \$3 billion in loans is vast, as is the political significance. Aggression against Namibia, Angola and other neighboring states and the growing resistance of the oppressed people in South Africa itself have aroused considerable nervousness among investors in South Africa, contributing to an instability in the economy. US loans, especially at crucial times as in the aftermath of the 1976 Soweto uprising, have helped to restore confidence and thus stability to the South African economy.⁵ Corporate withdrawal from South Africa is necessary because US lending and investment greatly strengthen the apartheid regime.

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

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.⁶

US investments in South Africa, including direct investment and loans total over \$6 billion. This represents no less than a tripling of US investment since 1960. Expressing a position held by many corporations, George J. Vojta, executive vice president of Citicorp said in testimony before the House Sub-Committee on Africa, "We believe that the economic ferment to which our presence in South Africa contributes, is a force for change in South Africa's social as well as its economic structure."⁷

In fact, since 1960, there has been a great increase in the repressive powers of the apartheid state.

► Over 4,400 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), the General Law Amendment Act (1962), and the Internal Security Act (1976).

► Laws to hold people without trial for increasingly longer periods of time have been introduced since 1961. Before that date the law required arrested people to be charged within 48 hours. At least 5,000 people have been detained without trial since 1963.

► Over 1,400 people have been banned or banished since 1961, and powers to ban people and restrict their activities without trial have grown. On October 19, 1977, the South African regime banned seventeen black organizations, one white organization, two black newspapers, and more than seventy individuals were banned or detained.

► At least 8 million people have been arrested or prosecuted under the pass laws since 1961, and more than one million deported to the Bantustans from urban areas.⁸

In spite of the claims that corporations facilitate social change, their presence and growing involvement have not prevented the growth of the repressive apparatus of the apartheid state.

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

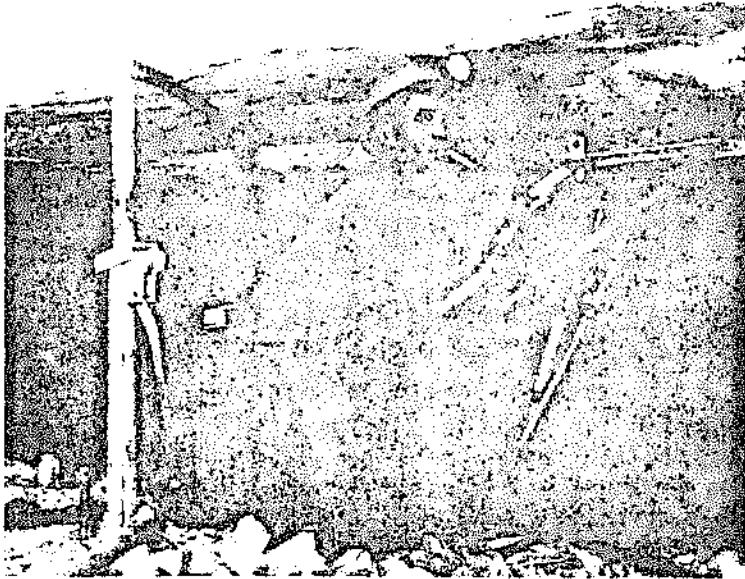
"What we in the African National Congress want to see is what the people of South Africa want to see — our people are not only ready and willing to accept the consequences of action against the regime on the economic front, but they have themselves demanded the total political, economic, cultural and military isolation of the racist regime. We demand total isolation of the racist regime — no investment and withdrawal of existing investment." Oliver Tambo, President of the African National Congress, South Africa.⁹

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.

In South Africa it is a criminal offense punishable by a minimum of five years in jail and a maximum of death for anyone to publicly oppose investment by foreign corporations. In spite of the danger, leaders of the trade union movement, the South African churches, and black political organizations have found ways to call for divestment. As Dr. Nthato Motlana of the Soweto Committee of Ten said, "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 say I support 'pressures,' and leave it at that."¹⁰

Stating it more fully, Black Consciousness leader Steve Biko 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 stand to lose their jobs. But it should be understood in Europe and North America that foreign investment supports the present economic system of political injustice... If Washington is really interested in contributing to the development of a just society in South Africa, it would discourage investment in South Africa. We blacks are perfectly willing to suffer the consequences! We are quite accustomed to suffering."¹¹

Steve Biko was killed in 1977 by the South African police while he was being held under the Terrorism Act.



The average monthly wage for black miners is \$175; for white miners it is \$1,056.

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

In 1977, after 29 years of involvement, the Polaroid Corporation pulled out of South Africa. It did so only after it had attempted to silence critics by improving working conditions for its employees, contributing to a trust fund to improve the lives of black South Africans, and justifying its presence in South Africa at numerous stock holders meetings. Demands for withdrawal continued, and Polaroid finally acquiesced. It said it was doing so because its South African distributor, Frank and Hirsch, had been selling equipment, in violation of an agreement, to the South African government.

With few exceptions, corporations will not withdraw from South Africa until there are economic reasons to do so. The power that institutional investors, and pension funds hold is economic power. If trade unions, universities, churches, state and city governments all act in concert to remove their funds from banks and corporations that operate in South Africa, they will be exerting the kind of pressure that corporations pay attention to: economic power.

7. Are the Sullivan Principles an alternative to withdrawal?

"Many of the 350 US firms now active in South Africa have subscribed to the so-called Sullivan Principles. Although these sound splendid on paper, that is what they essentially remain. Paper Principles. Another case of someone's good intentions dashed against the rocks of reality." William Lucy, Secretary Treasurer, American Federation of State, County and Municipal Employees (AFSCME).¹²

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.

US corporations employ 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. According to Emma 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."¹³

The Sullivan Principles have fulfilled the companies' hope that they would act as a deflector of criticism. 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.

Seeing what was happening many US firms rushed to get on the band-wagon. By 1980, 140 companies out of 350 US firms operating in South Africa had endorsed the Sullivan Principles. As one subsidiary of a US firm explained to the Investor Responsibility Research Center, a public interest research group in Washington, it held off signing the Principles for some time — until it realized that "the Principles were being used to pacify critics in the States."¹⁴

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

"If the opposition has doubts about the future of South Africa I can only say our confidence in our country is borne out by the number of foreign investors." Dr. de Villiers, Minister of Industries, Commerce and Tourism.¹⁵

The first effect of disengagement by US corporations and banks would be a major blow to the confidence of the ruling minority government. As exiled South African editor Donald Woods has said, "Disengagement...will deal a firm psychological blow against the structure and system of apartheid. The white government in South Africa is terribly conscious of world opinion — it affects not to be, but it is extremely conscious of it..."¹⁶

Important as it is, far more than a psychological blow would be delivered by withdrawal. US investment in South Africa is centered in the vital sectors of the economy, in areas where South Africa lacks natural resources and is unable to reach self-sufficiency. For example, if US technology was no longer available to South Africa the impact on the economy would be enormous. As Jan Timmer, managing director of Philips SA, has said, "It is a fallacy that any country other than the US and Japan can ever reach self-sufficiency in electronics. This is because of the sizzling pace of change, the huge sums required for research and the lack of market size."¹⁷

There would be major political implications as well. If the US government no longer had to be concerned about a major US economic commitment to South Africa its policy options would greatly expand. The necessity of maintaining the stability of the present apartheid system would diminish dramatically.

9. Does South Africa offer a sound investment opportunity?

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."¹⁸

The appeal of high profits and fast growth on investment is offset in South Africa by the failure of the government to insti-

tute desperately needed labor reforms. Black unemployment and underemployment is estimated at 25 percent creating what the London *Economist* has called "a time bomb of discontent and revolution-fodder."¹⁹ There is a crying need for skilled labor. The shortage severely retards South Africa's economic growth but political factors prevent the training of black workers for positions traditionally held by whites.

These conditions in South Africa coupled with pressure from anti-apartheid groups, churches, universities and other institutional investors in the US make up what has been labeled "the hassle factor." Its rein on US corporate involvement is expected to tighten. 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."²⁰

10. What are the financial implications of divestment?

Beginning in 1978, the University of Wisconsin divested about \$10 million from corporations investing in South Africa. Dave Konshak, accountant for the University Trust Fund confirms that "divestment of South Africa-related stocks has not hampered or limited our ability to find suitable sources of investment."²¹

According to Nancy Elliot, director of investments and trusts at Michigan State University, divestment worked to the university's advantage. This was "because the firms that are involved in South Africa are the big industrial firms that have not been doing as well as other types of firms." By comparing the current market value of companies sold versus the market value of companies bought, Elliot determined that as of June, 1980, the portfolio had earned an additional \$1 million.²²

Robert J. Schwartz, vice president of Shearson/American Express, and an expert on socially responsible investment (SRI) testified in 1980, "By careful selection, the exclusion of companies in South Africa may be replaced by more profitable investments...The SRI funds which I manage have outperformed the major indices of stocks and bonds" in the years 1976-1979.²³

11. Has the divestment campaign had results?

The growing list of states that have taken action against apartheid includes California, Connecticut, Massachusetts, Michigan, Nebraska, and Wisconsin. Cities include Hartford, Madison, Gary, Berkeley, Washington, Davis, Minneapolis, Cambridge, East Lansing, and New York.

The campaigns in the states and cities were 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 Service Employees International Union; International Longshoremen and Warehousemen's Union; United Auto Workers; United Electrical Workers; Illinois State AFL-CIO; AFSCME Local 1716 of Hartford, AFL-CIO; District 1199 National Union of Hospital and Health Care Employees, Retail, Wholesale and Department Store Workers Union, AFL-CIO; Joint Board Fur, Leather and Machine Workers Union of the United Food and Commercial Workers International Union, AFL-CIO; and District 31 United Steel Workers of America, AFL-CIO.

Churches which have voted to end their banking or corporate links to South Africa include the National Council of Churches,

Global Ministries, the Reformed Church in America, Union Theological Seminary, and the American Friends Service Committee.

Universities that have taken action are too numerous to list. Those that have sold all shares in corporations doing business in South Africa include Antioch and Hampshire College, Ohio University, Michigan State, Indiana Central, and the Universities of Massachusetts, Oregon, and Wisconsin.

12. What kinds of alternative responsible investments exist?

"There is a mounting consensus that pension fund investments cannot protect retiree's benefits unless they protect employee's 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.²⁴

Examples of responsible investment include the Kansas Public Employee's 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.

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Footnotes

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⁶Southern Africa Project, "Special Report: Southern Africa," Lawyers Committee for Civil Rights Under Law, Washington, DC, 1981.

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⁸Focus, International Defence and Aid Fund, No. 35, July-August, 1981.

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¹⁰New York Times, April 4, 1978.

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¹⁴Ibid.

¹⁵Star, Johannesburg, September 12, 1981.

¹⁶Yale Graduate Professional, February 3, 1978.

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²²Ibid.

²³Dr. Robert J. Schwartz, Statements before Members of the Joint Committees on Civil Rights, Senior Citizens and Retirement, and the Department of the Treasury of the State of Michigan, June 4, 1980.

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