SUMMARY AND RECOMMENDATIONS

PURPOSE

Today, a lively debate is emerging over the appropriate relationship the United States should maintain with the Republic of South Africa, a country governed by a leadership committed to a policy of apartheid, or racial segregation. That debate has arisen essentially for three reasons. First, it is a response to events which have occurred within the last 18 months in South Africa itself, in particular, the violent disturbances in Soweto and other black townships, the death in detention of the foremost leader of the black consciousness movement, the massive arrests and bannings of scores of black and white opponents of apartheid, and the closing of the largest circulation black newspaper in the country. These events bring home the reality of the potential for conflict in a country that has prided itself for years on a reputation for stability.

A second factor contributing to this debate is the dramatic political transformations which have occurred in southern Africa as a whole. Within the last 3 years, the entire strategic balance has shifted in the region. For centuries, southern Africa had been dominated by a coalition of white minority governments that maintained unchallenged control of the richest and most strategically important part of Sub-Saharan Africa. That traditional structure has collapsed, presenting South Africa with its greatest foreign policy challenge since the Boer War.

The third reason accounting for the debate over United States-South African relations is the coming to office of a new administration committed to a policy of promoting human rights as a vital component of American foreign policy. Perhaps no other area of the world presents as hard a test of the human rights issue as South Africa, a country whose complex social, economic and political systems are based on a complex of laws, policies, customs and attitudes enshrining racial domination. What sets South Africa apart from other countries which have equally oppressive and, in some cases, quantitatively worse records of human rights violations is that (1) South Africa's policies are based on race as the sole criterion of discrimination, (2) its human rights violations have been made "legal" through legislative and regulatory actions that have institutionalized racism into the fabric of society, and (3) its policies are justified in the name of defending the Free World of which South Africa claims to be a member.

At the heart of this debate lies the question of the role of American corporations. Although the scope of U.S. ties with South Africa is extensive, our economic relationship constitutes the strongest and the most controversial aspect of our association with South Africa. U.S. economic ties with Pretoria reach back to the 19th century. They have grown to the point where the United States is now South Africa's largest trading partner, its second largest overseas investor, and the supplier of nearly one-third of its international credit. This relationship confirms a close interdependence which makes a position of strict noninvolvement or neutrality on the issue of apartheid virtually impossible to maintain, given these economic realities.

What role do U.S corporations play in South Africa? One school of thought holds that U.S. corporations promote gradual social, economic, and political change through progressive labor practices which may set an example for South Africans to follow. American credit and capital, it is maintained, also contribute to a lessening of apartheid by promoting economic development which benefits all South Africans. Thus, it is argued, the overall impact of U.S. economic interests in South Africa is consistent with the objectives of U.S. foreign policy which has traditionally stated that it "abhors" apartheid and, under the current administration, stands for a progressive transformation of society toward full political participation.

Another school of thought holds precisely the opposite view. American economic investment in the country, it is argued, supports apartheid by fueling the economy on which the system rests. According to this view, American investment has had marginal material benefits for blacks and has strengthened the grip of the whites. Over the years, the income gap between whites and blacks in South Africa has widened, the political rights of blacks have diminished, and the drift toward greater authoritarian control by the central government has accelerated. Thus, it is concluded, U.S. economic interests in South Africa are inconsistent with the objectives of U.S. foreign policy, at best having no significant impact on apartheid and, at worst, directly supporting the policies of racial segregation.

The primary purpose of this study was to determine on the basis of empirical evidence which of these two views is essentially correct. Have U.S. corporations been agents of social and economic change? Have American credit and capital tended to erode apartheid or support the Government of South Africa and its policies of racial segregation? Have U.S. corporations been acting contrary to or in support of American foreign policy interests? These questions lie at the crux of the debate over the appropriate relationship of the United States to South Africa.

This study explores these questions in three parts consisting of (a) an analysis of the role of international credit by the Congressional Research Service, (b) a survey by the Subcommittee on African Affairs of the Senate Foreign Relations Committee of the labor practices of American firms doing business in South Africa, and (c) a Congressional Research Service review of the issues raised by the role of U.S. corporations in South Africa, as they were presented before the Subcommittee on African Affairs during the hearings conducted in 1976. The body of data contained in the first two reports is the basis of the summary and conclusions of this study.

International Credit

The bulk of international loans to South Africa have always originated from European sources. However, over the past few years, both the total amount of international loans, and the proportion borne by the United States, have increased substantially. From 1974 to 1976, bank lending to South Africa nearly tripled in volume and nearly doubled as a proportion of total foreign investment. This represented an increase in the proportion of credit as opposed to ownership in the economy, and a move in the direction of greater liquidity and a rapid return on investment that raised the debt burden of South Africa. By end-1976, South Africa's overseas bank debt equaled $7.6 billion, of which $2.2 billion, or nearly one-third of all bank claims on South Africa, was owed to U.S. banks and their foreign branches.

The primary borrowers of international credit are not private commercial enterprises, but the South African Government and its agencies which, until recently, relied on gold and direct foreign investment for economic growth. But in the 1970's—and especially in the period from 1974 through 1976—international credit provided much of the financing for the Government's infrastructure projects, and for its increased strategic imports (defense and oil). Of the identified international credit extended to South Africa in the critical 1974–76 period, only $444 million went to private sector borrowers as compared to over $3 billion to the public sector.

The $2.2 billion of American credit outstanding in 1976 is roughly equivalent to the amount of foreign exchange required to cover South Africa's defense and oil imports costs for the same year, based on figures from South African sources and the United Nations. The cost of defense and oil quintupled between 1973 and 1976—from an estimated $400 million to an estimated $2 billion. In spite of increased foreign exchange shortages resulting from the fall in the price of gold, South Africa was largely successful in developing its infrastructure in many vital economic sectors, in stockpiling oil, and in upgrading and modernizing its military. International credit filled the gap, directly supporting the South African Government in its desire for greater economic and strategic self-sufficiency, and permitting Pretoria to pursue what was a strategic investments policy, aimed at fortifying its security and defense-related projects. The American banks providing the bulk of U.S. credit to South Africa include Chase Manhattan Bank, Citibank, Irving Trust Company, Bank of America, Manufacturers Hanover Trust, Central National Bank of Cleveland, Morgan Guaranty, First Wisconsin National Bank, Pittsburgh National Bank, Chemical Bank, and the Bank of Boston.

U.S. trade expansion credit agencies have likewise played a role in carrying South Africa forward during the years of economic recession and heightened strategic investments. The Export-Import Bank of the United States, which insures, guarantees, and discounts credits which finance U.S. trade, authorized $205.4 million for South Africa over the period 1972 to 1976. Of this amount, $141.7 million was for insurance and $63.7 million for loan guarantees. Another U.S. agency, the Commodity Credit Corporation, financed $46.2 million worth of commodities for export to South Africa from 1972 to 1976. These agencies are designed to promote trade and do not directly provide credit to the South African Government. However, they have financed transactions of U.S. private corporations which deal directly with the South African Government or government-controlled agencies, thereby facilitating the fulfillment of Pretoria's economic and strategic priorities. Total U.S. trade with South Africa reached a peak of $2.3 billion in 1976, surpassing that of the United Kingdom, France, West Germany, or Canada.

CORPORATE ACTIVITIES

AGGREGATE AMERICAN INVESTMENT

The book value of American corporate investment in South Africa by 1976 was $1.665 billion, or 37.3 percent of total American investment in Africa. South Africa's attractiveness to foreign investors, however, appears to be declining. The U.S. Department of Commerce reports that reinvested earnings of U.S. subsidiaries in South Africa last year amounted to $73 million and new equity investment of these firms increased by only $9 million. This compares with a total of $584 million in reinvested American earnings and $256 million in equity increases by U.S. firms for the continent as a whole. Repatriation of dividends and other earned income from South Africa was $125 million in 1976 as contrasted with $177 million from Libya and $174 million from Nigeria.

It is probably too early to determine if the declining attractiveness of South Africa for foreign investors is simply a temporary phenomenon resulting from the economic and political uncertainties of the last few years or the beginning of a general pattern of shifting U.S. economic interests that will continue in spite of an expected economic recovery. Historically, the corporate role of the United States in South Africa has been expanding since the end of the last century, with a notable increase in the last decade. According to the United Nations,[1] United States direct investment between 1960 and 1975 increased by more than 300 percent and represents approximately 16 percent of the total foreign investment in South Africa today. Although there are more than 250 American corporations operating in South Africa, only about a dozen or so are said to account for three-fourths of the total value of American investment in the country.

TOP U.S. CORPORATIONS

While aggregate figures are available indicating the scope of American economic interests in South Africa, few details are known about the activities of individual firms and the precise role they play with respect to social and economic change. The extent of this lack of knowledge was indicated when the Subcommittee attempted to obtain a list of the top 10 or 15 American companies doing business in South Africa. It was found that no such authoritative list exists and the identification of the largest U.S. firms rests upon the source and the criteria one chooses to use.

According to the National Council of Churches,[2] whose estimates are used by the United Nations, the 13 largest U.S. firms, in order of size of assets, are:

> General Motors, Mobil Oil, Exxon, Standard Oil of California, Ford Motor Co., ITT, General Electric, Chrysler, Firestone, Goodyear, 3-M (Minnesota Mining and Manufacturing), IBM, and Caterpillar.

[1] "Activities of Transnational Corporations in Southern Africa and the Extent of their Collaboration with the Illegal Regimes in the Area," U.N. Economic and Social Council, Apr. 6, 1977.
[2] "Church Investment, Corporations and South Africa," (New York: Friendship Press, 1973).

The U.S. Chamber of Commerce provided a different list of the top 15 firms, based on employee populations of 1,000 persons or more:

Carnation, Ford Motor Co., Firestone, General Motors, Goodyear, International Harvester, IBM, 3M, Masonite, Mobil, NCR, Newmount Mining, Otis Elevator, General Electric, and Union Carbide.

Based on information provided by U.S. companies which participated in the subcommittee's survey appearing in this report, the U.S. Chamber of Commerce list excludes Caltex (which reported having 1,932 employees) and ITT (which reported having 3,900 workers).

The U.S. Department of Commerce offered yet another list of the top 12 U.S. corporations, based on unspecified criteria:

Coca Cola, General Electric, Esso, Gillette, IBM, International Harvester, Joy Manufacturing, NCR, Otis Elevator, South African Cyanamid, Union Carbide, and John Deere.

Finally, a fourth source, Investors Responsibility Research Corporation (IRRC),[3] on the basis of sales and assets, identified two oil companies—Mobil and Caltex—as the two largest U.S. corporations in South Africa. According to IRRC, their combined sales are equal to more than $1 billion. Caltex's assets are worth $200 million and Mobil's are worth $333 million. IRRC additionally estimates that at least 72 U.S. firms employ more than 250 workers each and 21 firms have more than 1,000 workers each (10 more than the number of firms with employees of 1,000 or more provided by the U.S. Chamber of Commerce). In all, IRRC estimates U.S. firms employ some 100,000 workers in South Africa, about 70 percent of whom are black Africans. American firms are concentrated in oil, motor vehicle and computer technology, representing 43 percent of the petroleum market, 23 percent of the auto sales, and 70 percent of the computer business in South Africa. On the basis of their dominance in these sectors, then, the largest U.S. firms should include:

Mobil, Caltex, Exxon, Standard Oil of California, General Motors, Ford Motor Co., Chrysler, IBM, Control Data Corp., and NCR.

While it is impossible to establish with certainty the exact number of top U.S. firms in South Africa, it is clear that many of the companies which may be said to rank among the largest operating in South Africa participated in the survey conducted by the subcommittee.

FINDINGS

The aggregate data in the survey is based on the replies of 75 companies, or 30 percent of the 260 firms which were sent questionnaires by Senator Dick Clark in 1976. These companies were asked to supply information concerning 10 major issue areas, ranging from employment policies to investment plans.

EEO.—More than half of the responding firms stated they have an equal employment opportunity (EEO) policy specific to South Africa. Most of these policies were instituted in the early 1970's, a period when U.S. public criticism of multinational practices increased and our own EEO regulations were amended. It was also a period when

[3] "U.S. Business in South Africa: The Withdrawal Issue" (Washington, D.C., 1977).

renewed attention was focused on southern Africa. A substantial proportion of the firms indicated, however, that their EEO policies were communicated primarily through verbal means, leaving some question about the consistency and thoroughness of implementation. Other firms provided contradictory responses, suggesting that they actually did not have a policy specific to South Africa, but rather general guidelines of worldwide applicability. Still others indicated that South African law inhibited implementation of EEO policies. Generally, therefore, American firms indicated a lax and highly selective application of EEO policies in their operations.

Product restrictions.—Participating firms were asked about restrictions on the sale of their products, the purpose of which was to determine if they directly supplied the Government or Government-supported agencies which uphold apartheid. Only 11 firms said they restricted the sale of their products and this included restrictions on sales to the South African and Rhodesian Governments, restrictions for military purposes, restrictions to specified industries, or limitations as defined by U.S. law. With very few exceptions, there was little evidence that U.S. firms deliberately adopted a socially conscious policy of avoiding support of the South African Government or its apartheid policies. In fact, only one company—Control Data Corp.—specifically stated that it had a self-imposed restriction on business transactions which might support the continuation of apartheid. (Citing recent repressive measures in South Africa, Control Data Corp. also announced in October 1977, that it has decided not to enlarge its investments in South Africa. Ford and General Motors previously indicated a similar halt in new investments.)

Personnel.—A total of 36,742 employees work for 69 firms which supplied the subcommittee with employee population data. Eight companies accounted for 60 percent of the total, the largest employers being Ford and General Motors with roughly 4,800 workers each.

In some cases, there was a direct correlation between race and mode of employment. Rockwell International, M & T Chemicals and Donaldson Co., for example, have all their white workers as salaried employees and all their non-white workers paid on an hourly basis. Only 18 firms pay all their workers on a salaried basis.

Less than 1 percent of the total number of persons employed by responding firms are not South African. The key position of managing director, however, is filled by non-South African (i.e., American and European) personnel by more than a third of the responding firms.

Equal pay.—Seven companies admitted they do not pay equal pay for equal work, nearly all citing inexperience of black workers as the major obstacle. Sixty-three firms indicated they do pay equal pay for equal work, more than half of whom reported that they had no difficulty in doing so. Among the reasons given for failing to pay equal pay for equal work were high demand for whites, high wages for whites, resistance by white unions, and inexperience of black workers—the explanation most often given for not paying equal wages. It should be noted that there is no legal restriction in South Africa on paying equal wages for equal work just as there are no legal prohibitions against training black workers or placing blacks in executive or supervisory positions. These are matters of internal company policy.

Wage levels.—Wage levels was probably the most misinterpreted area of inquiry in the survey. A large proportion of the responding firms used different standards of minimum pay, making comparisons difficult. What is noteworthy, however, is the uneven performance of companies in this respect as compared to other labor policies. Sixteen firms which do not have particularly progressive labor records in other areas compensated their employees at relatively high levels, among them NCR, which, ironically, stated it does not pay equal pay for equal work. On the other hand, some firms such as Ford Motor Co., which had fairly progressive policies in EEO, black training, or other fields, were among the 25 firms paying the lowest level of wages.

Black promotion.—Questions concerning black promotion elicited the most forthcoming replies. The major obstacle American firms identified as inhibiting black promotion was South African law. As Bristol Myers noted, a company could theoretically hire an educated black, but he might not find suitable housing or receive Government permission to work in a white area. White workers and customer resistance were other major hindrances to black promotion.

Responses to inquiries about black promotion revealed that U.S. firms tend to operate without reference to head office guidelines or to public pressure at home. The major incentive for promoting black advancement was enlightened self-interest—the need to raise productivity and to obtain trained manpower which is in short supply.

Training.—Training of black employees is one aspect of multinational labor practices which the South African Government actively supports. Indeed, the South African Government encourages black training through the provision of tax incentives which U.S. firms may be expected to draw upon for improved labor programs. Yet only one-third of the responding firms in this survey had formalized training programs which are needed to qualify for the government's tax credits. Approximately one-fourth of the firms reported ad hoc, on-the-job training, but this is insufficient for the government benefits.

Unions.—Worker representation constitutes the most contentious subject of U.S. corporate activity. Although not legally prohibited, black unions are not officially recognized by the South African Government which fears the political consequences of a black labor movement in a society in which 70 percent of the labor force is black. But while officialdom frowns on labor organization, it tolerates the existence of scores of black unions that are of little effectiveness to date. Foreign firms are reluctant to encourage their development because they may ultimately diminish corporate profitability. Hence, not a single U.S. firm recognizes or negotiates with an African trade union. (Ford Motor Co. has recently announced its intention to recognize a black union, following a similar announcement by a German firm, Volkswagon.)

Sixteen firms indicated they had no worker representation at all and 45 firms said they had partial representation consistent with the government-supported worker/liaison committees. Only seven firms reported having been approached by African union organizers for recognition. Three firms said they would be willing to recognize black unions and negotiate with them without specific conditions. Thirty said they would be willing to do so provided the unions had up to

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100-percent worker representation or a clear majority representation of workers in a particular field or industry. Others were more vague about the conditions they attached to their theoretical willingness to endorse unionism. On balance, American business support of African trade unions appears to be little more than lip service.

Representations to the South African Government.—This area of inquiry probed the extent to which U.S. firms attempted to gain legal exemptions from the South African Government's restrictive labor policies or to press for a relaxation of these regulations. Twenty-eight firms requested exemptions from a labor-related law but only four were granted their requests. Eleven firms were contacted by the South African Government for violations. Rockwell International described its fine as "minor" and W. R. Grace was penalized with a $35 fine for a technical violation. The leniency with which the Government has treated U.S. firms suggests that they operate well within the law and customs of the society.

U.S. representations and new investment.—At the time of this survey, most firms reported that U.S. policy does not affect their ability to do business in South Africa. Only seven of the responding firms said their executives had met with U.S. officials to discuss aspects of U.S. policy that might change. U.S. firms generally opposed policies aimed at withdrawal or at international pressure on South Africa.

Three firms reported new investments being planned—South African Cyanamid, Esso Mineral Africa Inc. (a subsidiary of Exxon), and Preformed Line Products. Regarding potential U.S. actions which might affect business operations, 31 firms said they would be affected if Export-Import Bank facilities were ended, 50 firms stated their operations would be seriously affected if tax credits were ended to firms investing in South Africa, and 27 firms indicated that both of these changes would affect their South African business activities.

Conclusions

Today, South Africa is more dependent on international credit and capital than ever before. It has a heavy debt burden, direct foreign investment has dropped substantially, and medium-term lending has reportedly reached its limit. Defense and security related expenditures continue to soar and black demands are accelerating at an ever increasing pace. A measure of South Africa's economic squeeze is the government's recent decision to increase house rents in Soweto, the most politically explosive township in South Africa, in some cases by as much as 80 percent of the current rate. The demand for revenue apparently outweighed the obvious political risk entailed by the decision, made at a time of heightened racial tensions following the death of Steve Biko, one of South Africa's most prominent black leaders, and the massive bannings and detentions of opponents of apartheid.

U.S. economic interests in South Africa may not be decisive in bailing South Africa out of its economic woes. But there is no question that it has been pivotal in directly assisting the South African Government during its worst economic difficulties in the past, and, if permitted, could do so in the future. International credit provided the margin of funds needed by South Africa in the 1974–76 period to finance its military buildup, its stockpiling of oil, and its major infrastructure projects in strategic economic sectors such as transportation, communications, energy, and steel production, all of which are related to security needs. Collectively, U.S. corporations operating in South Africa have made no significant impact on either relaxing apartheid or in establishing company policies which would offer a limited but nevertheless important model of multinational responsibility. Rather, the net effect of American investment has been to strengthen the economic and military self-sufficiency of South Africa's apartheid regime, undermining the fundamental goals and objectives of U.S. foreign policy.

What could U.S. corporations realistically do in light of South African legal restrictions and the desire for profitability? There is much that could be done. The code of conduct for multinational corporations drawn up by Rev. Leon Sullivan, a member of the board of directors of General Motors, suggests some of the more modest steps such as integrated facilities, training, etc., that can be taken. An even stronger set of corporate principles endorsed by the European Economic Community Council of Foreign Ministers suggests more concerted areas of action. It calls for equal endorsement of African trade unions and the reporting by South African subsidiaries to their parent companies' head offices in Europe which would monitor the fair employment practices laid down in the EEC code. All of these actions are well within the limits of South African law.

Individual companies have also tried to establish new directions, some announcing their intention to recognize black unions, curb new investment, or curtail their business transactions to activities which would not directly deal with apartheid-related projects. Chase Manhattan Bank, for example, has established a policy of not providing loans to the South African Government, its statutory corporations, the homelands, border industries, or to Namibia.

It may be argued that none of these measures will bring about the downfall of apartheid. But by comparison with the abysmal performance of U.S. corporations in the past, these efforts to express condemnation of apartheid, and exert a measure of influence toward its erosion, represent some degree of progress in the direction of a socially responsible multinational role in a society that has shown little capacity for significant change on its own. More importantly, these measures expose the complacency of U.S. corporations which have tended to rationalize their inactivity by blaming South African laws alone. With dedication and imagination, much could be done to promote social and economic change without violating South African law or significantly reducing profits.

Recommendations

The current policy of the U.S. Government is neither to encourage nor discourage foreign investment in South Africa. Given the evidence of U.S. corporate interests having acted contrary to U.S. foreign policy objectives, that policy is no longer tenable. U.S. policy should be changed to actively discourage American foreign investment in South Africa. This should be implemented in three primary ways:

1. Withdraw facilities of the U.S. Government which promote the flow of capital or credit to South Africa. This includes ending Export-Import Bank insurance and loan guarantees; permanently withdrawing the commercial attache to the U.S. Embassy in South Africa; ending visits by officials of the Department of Commerce to South Africa; reviewing and, where appropriate, limiting activities of U.S. agencies which may indirectly promote foreign investment; and ending the supply of economic data and counseling to potential American investors.

2. Deny tax credits to those U.S. corporations paying taxes to the South African Government which fail to act in ways consistent with American foreign policy. Specifically, this would involve cancellation of the tax benefits allowed to U.S. corporations which extend loans to or have investments in projects of the South African Government, its agencies, or any other institutions which further the implementation of separate development policies, including the border industries and the homelands. This policy would disallow tax credits for any U.S. corporations investing in strategic projects involving South Africa's military, security or defense needs. Finally, it would cancel tax benefits for U.S. corporations which fail to enforce fair labor practices.

Effective implementation would require the U.S. Government developing a set of investment guidelines and fair employment principles, preferably in consultation with the head offices of U.S. subsidiaries. It would also require the periodic and systemmatic monitoring of U.S. corporations in South Africa, possibly by labor attaches attached to the embassy to ensure compliance. This policy would have the advantage of providing incentives for change rather than simply applying punative measures for past corporate activities.

3. Withhold official endorsement of private groups which organize in defense of U.S. corporate investment in South Africa unless they satisfactorily support the corporate guidelines and fair employment principles laid down by the U.S. Government. Such organizations would include the U.S. Chamber of Commerce which opened its office in South Africa last year, the first branch of the Chamber to be inaugurated in the continent of Africa. While such an organization could conceivably be instrumental in implementing the kinds of changes discussed above, in practice it has served in other areas to protect and promote U.S. foreign investment. South Africa could be a testing ground for the Chamber, one of the most influential organs of American private enterprise.

These recommendations contrast with more extreme measures advocated by some, such as the disengagement of U.S. corporate investment, a blanket denial of tax credits, or the adoption of wider trade and investment sanctions. Instead, they aim at fostering specific and meaningful changes in the role which U.S. corporate interests have traditionally played in South Africa. Some will say the recommendations go too far; others will say they do not go far enough. Under present circumstances, it is felt that these policies, properly implemented, can deal firmly and pragmatically with the economic realities that constitute the heart of the U.S. relationship with South Africa. Nevertheless, at some time in the future, the situation may merit stronger measures should these recommendations prove ineffective or impractical. Much depends upon events within South Africa and the willingness of all participants there to accept constructive transformation.