ECONOMIC SANCTIONS AND SOUTH AFRICA

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INTRODUCTION

There are few more emotive and contentious contemporary issues of enduring nature than the subject of economic sanctions and South Africa. The controversy surrounding this issue has implications for the structure of international social, political and economic order. The threads of the debate are woven into the historical fabric of the past two decades, during which the acrimony of arguments both for and against sanctions on South Africa has increased. Indeed, for each argument in the debate can be found a counter-argument and "lies, damned lies and statistics" abound.

The complex and widespread nature of the question has elevated a practical issue into the realm of theoretical analysis. This thesis is neither purely descriptive nor purely theoretical. It has essentially two focal points, firstly, an attempt at a systematic and reasoned investigation of the many claims and counter-claims, designed to put these arguments into a broad economic framework. There is generally a greater volume of pro-sanctions literature than anti-sanctions literature, some of which is freely available in South Africa, while some is restricted and some not available at all. However, this partial lack of accessibility would seem to pose no material problem of omission: as much of the literature is repetitive, the unavailable material is usually adequately "represented" by material which is available. Also a great part of the literature contains little or no economic analysis since it focuses more on political issues. In this respect the thesis tries to represent the main points of the broad arguments concerned rather than individual nuances and personal viewpoints. It is concerned with sanctions of an economic nature rather than wider sanctions that may affect South African citizens more generally, for example, sport and diplomatic boycotts, bans and restrictions on international travel, etc.

The second focal point of the thesis is aimed at an evaluation of the potential effects of sanctions on the South African economy. The methodology of the thesis is perforce somewhat piecemeal. The assessment of the impact of sanctions in principle implies the use of one of two types of model. Typically, the first model is a linear one designed to capture the nature of the economy via input-output linkages: then, by making seemingly "appropriate" assumptions the "probable" effects of sanctions on the domestic economy may be simulated and "optimal" counter-measures identified. Such a model has been published by Arnt Spandau and it is probable that government bodies have specified and estimated similar unpublished models of the South African economy. However, various problems exist in connection with such models. For example: input-output tables do not necessarily always bring out the effects of sanctions as such. Moreover, as economic variables are affected by non-economic variables, there follows a practical difficulty in the sense that we do not know what changes to assume in the exogenous variables, ie. we do not know exactly what form sanctions may take. This, in turn, has implications for the model specification, and the model may become inappropriate. So changes in the endogenous variables may also be accompanied by changes in the relations between endogenous variables, ie. parametric changes. Added to such methodological problems is the practical difficulty of obtaining sufficient and accurate basic data. Although the usefulness of such models is questioned here, it was simply not practicable, nor did it seem desirable, to follow a highly formalised approach in this thesis.

The alternative model may be said to rest on a commonsense approach, where the initial point of reference is represented by those organisations which are advocating sanctions against South Africa, which is why we also look at the literature on sanctions. Given this point of departure, we can then identify the broad sectors of the national economy most likely to be affected, and also consider the credibility of sanctions, ie. their chances of success, given the "will" to apply sanctions and the nature of available counter-measures. Sanctions may also have "external" effects, especially in the broader Southern African, or regional, context. This approach is obviously piecemeal and may be somewhat arbitrary but it has the virtues of commonsense and flexibility, and has therefore been adopted in this thesis.

No attempt has been made to introduce "dramatic new viewpoints" on the subject of economic sanctions and South Africa; what has been attempted is the gathering, presentation and analysis of available information on this topic within the confines of a single treatise. A great deal of the literature on economic sanctions and South Africa is not in general circulation and as the stock continues to grow, it becomes increasingly difficult for the non-specialist to remain au fait with the topic. Thus this thesis, on the one hand, attempts to present the major threads of the sanctions debate by presenting and correlating the more significant arguments found in the widespread literature. This has naturally entailed some significant selectivity of material, not only to avoid tedious repetition, but also to keep the individual chapters within reasonable limits. For example, in

Chapter III, which gives a broad outline of economic sanctions in relation to South Africa, lengthy and detailed studies on the topic have sometimes been summarised in a few words which give only the general thrust and import of the relevant study.

In addition to discussing the major arguments of the sanctions debate as found in the literature, this thesis as mentioned above, analyses the sanctions issue, in general, and also in relation to the South African economy. With the exception of the comparatively brief (and homogenous) Chapter III, individual chapters are subdivided along functional lines for the sake of convenience. Chapter I deals with economic sanctions mainly as a political institution and is thus concerned with the concept, origin and legal status of sanctions and related matters. Chapter II is more explicitly concerned with the economic aspects of and approaches to sanctions, with some reference to the Rhodesian and South African economies. Chapter III refers to "The Case of South Africa" which outlines the salient features of a strategy of economic sanctions aimed specifically at South Africa as a potential target case. However, sanctions do not occur in a vacuum and the institutional mechanism which transmits the effects of sanctions from the "senders" to the "receiers" is the Balance of Payments. Accordingly, Chapters IV and V deal with the current account and Chapter VI with the capital account of the South African Balance of Payments. This logical approach is then used to identify the broad sectors of vulnerability in the country's economy. Chapter IV focuses attention on South Africa's international trade pattern in general and on mineral exports (excepting gold) in particular. Chapter V first discusses the export-orientated nature of agriculture and the gold mining industry, and then South Africa's import requisites with reference to capital goods and oil. Chapter VI also details the capital account of the Balance of Payments with reference to foreign investment, and its qualitative impact in South Africa, and, in the broad sense of the word, disinvestment. The last chapter, (Chapter VII) describes the institutional features of the Southern African region which have a bearing on the sanctions issue.

Finally, it may be legitimate to enquire whether the somewhat hackneyed subject of sanctions needs further elaboration or study. In spite of the present hiatus in credible calls for sanctions on South Africa, it does not follow that such pressure has ceased or is likely to do so. Those who believe this fall into the same trap as many of the sanctions protagonists, namely, that of wishful thinking. Although the governments of South Africa's major trading partners are unlikely to press for economic sanctions at present, even the short term position is unpredictable, and given the current proclivity of the West, and particularly the USA, for economic sanctions (eg. on the Soviet Union for the invasion of Afghanistan, on the Polish authorities for their recent domestic policies and on Argentina during the Falklands War) it does seem sensible to investigate the case of South Africa which will no doubt remain a long rather than a short term international issue.

CHAPTER I

ECONOMIC SANCTIONS AS AN INSTITUTION

This chapter essentially explores the meaning and implications of economic sanctions as an institution; this is done under the nine consecutive headings that follow:

THE CONCEPT OF SANCTIONS

Economic sanctions are economic measures directed to political objectives.[1] The Pan Books Dictionary of Economics and Commerce, for example, defines "economic sanctions" as: "Embargoes on the export of goods, services and capital to a particular nation. They can be used in addition to military operations, as in the blockades of the UK and Europe in the Napoleonic Wars; or as a substitute for war, e.g. the ban by members of the League of Nations on the export of certain products to Italy in 1936 and the United Nations' similar embargo on Rhodesia which started in 1965."[2]

McDougall and Feliciano have described the nature of "economic coercion" in the following terms: "the management of access to a flow of goods, services and money, as well as to markets, with the end of denying the target state such access while maintaining it for oneself. All the familiar methods of economic warfare developed in the last two world wars may be included, such as the blocking or freezing of the target's assets; the imposition of import and export embargoes, total or selective; blacklisting of foreign firms and individuals who deal with the target state; drying up of foreign supplies by preclusive buying; control of re-exportation from a non-participant's territory; and control of shipping through selective admission to credit, insurance, stores, fuel, port and repair facilities ... The monetary system of the target-state may be substantially impaired by skilful manipulation of foreign exchange markets, withdrawal or refusal of credits, dumping of large quantities of currency to compel the target-state to pay in gold, by psychological methods calculated to cast doubts on the target-state's ability or willingness to pay; and by simple counterfeiting of the currency. Other techniques include the creation of artificial scarcity and high prices and the retarding of technological development through cartelization schemes, and the control of patents, the refusal to grant loans, or to pay for previous loans, and, of course, the taking, expropriation, or confiscation of enterprises and property."[3]

Economic sanctions may also be seen as a distinctive subset of a number of related measures, which have been set out by Wallensteen under the four headings given below:

" 1. Economic Warfare

This covers situations where military as well as economic measures are used to inflict maximum damage to the economy of other nations. Usually, the military means applied are the more important. Economic warfare includes a scale of various military actions, from limited naval blockades to all-out bombing. The examples are many, ranging from sieges via the Pacific Blockades of the 1800s to the Blockades of the Napoleonic War and the World Wars.

2. Economic Sanctions

This includes general trade bans between nations, where most of the trade between parties is affected. It presupposes no use of military means.

3. Specific economic actions

Examples are manipulations with economic aid, arms embargoes, nationalisations, etc. not taking the form of general trade bans. These actions are less comprehensive, and therefore frequently used.

4. Tariff wars

This means changes of tariffs and other export-import restrictions in order to influence other nations."[4]

THE ORIGINS AND LEGAL STATUS OF SANCTIONS

Economic sanctions imply a relationship between two parties, where the <u>sanctioner</u> is sometimes also referred to as the "sender" or "imposer", and the sanctionee as the "receiver" or "target" of sanctions. The selection of means and the constraints to which they are subject, both substantive and secondary, is obviously a vital area of concern to policy makers, and though this thesis makes no pretence to be a definitive work on such policy options, they will be examined here. The reasons underlying sanctions find their basis in the objective of national, regional or international political organisations, to being pressure to bear (here implying economic pressure) on one or more parties for purposes of persuading them to conform to those organisations' norms.

Such a description raises many moral, legal and political problems. If sanctions are "conformity-defending practices, and conformity means adherence to prescribed patterns, "[5] then it is legitimate to ask whose or what prescribed patterns are applicable. There are obviously no unique answers to normative questions and it is unlikely that any universally acceptable norms and procedures can be uncovered in this respect.

Sanction is primarily an expression of political activity. The moral foundation of sanctions in transnational activity draws from the concept of a "just war". War is one possible sanction open to policy makers and the moral basis of all international action draws on similar precepts. The "just war" is a term evidently coined by Aristotle, and he explained it as a means to an end, namely the furthering of the morality of peace and justice.[6] Since the articulation of this Aristotelian concept many transnational acts have been viewed in these terms, and the present-day international concert, such as it is, essentially relies on similar precepts, though not necessarily with such recourse to "just war" as such.

The legal position of sanctions is far from simple. Since there is no universally accepted, nor codified system of international law, attempts to find legal bases for transnational action must draw from a variety of national or domestic legal systems. This is, however, by no means a straightforward matter: "Traditional analytical approach to domestic law is of doubtful use when transferred to the international context. Domestic law models are of limited value to the international lawyer ... and we could go so far as to say that domestic analogues obscure and restrict the potential of the international context taken on its own merits."[7] Margaret Doxey, a prolific writer on the subject of sanctions, relates sanctions to law in the following terms: "Sanctions in the context of a legal system are negative measures which seek to influence conduct by threatening, or if necessary, imposing penalties for non-conformity with law."[8] In another publication Doxey comments: "There is no accepted functioning system of law and order between states, wide ideological and economic chasms yawn between them, and self-help is prevalent. Inevitably, there is recourse to multilateral and unilateral coercion and retaliation ... consensus on norms, or standards, can only be found at a generalised level, and tends to dissolve rapidly into disagreement over detailed interpretation, particularly over claims that standards have been violated. 'Aggression' can be presented as 'self-evidence', intervention justified as assistance to a friendly government."[9]

However, if a quasi-state of law and order between nations is to be upheld, there must be a recognised authority structure which must not only be 'legal' but also 'legitimised'. In the absence of a legitimised status for the system, any conformity will be influenced not by commitment but by sanction. In this context four possible authority structures may be isolated: the single state acting alone; a group of states acting in alliance or under a hegemony; an international organisation operating on a principle of concern; and lastly, some sort of central authority existing over and above the individual members of the world community.[10] The last of these structures has no real counterpart in history, but the other three systems have all had recourse to international sanctioning. The way in which they are viewed as authority structures is circumstantial and not universally applicable. As MacDonald notes: "Traditional criticisms of international law, directed at the validity of international law as law, confuse a principle of order with the problem of its application in a particular context at a particular time. The criteria is, and must be, feasibility and effectiveness ... and it is in the light of feasibility and effectiveness that sanctions in international law must be examined."[11] Thus the dictates of international law are such that it cannot be viewed as static. It is dynamic and contextual rather than immutable.

For this reason arguments as to whether the imposition of sanctions is legal or illegal are misleading. International law, having a shifting base, due to changes in prevailing or accepted norms and practices, is thus a poor measure of the need or justification for sanctions since the law can be tailored to a particular situation, thus rendering any sanction 'legal'. Thus international law and the authority structure may be legal in this sense, as Doxey points out, but not necessarily legitimised - which by definition may give rise to the need to put sanctions on deviant behaviour. It is more likely that sanctions will be viewed as legitimate if they have the backing of a universal or a large, multilateral group. Unilateral action by one nation against another is likely to be viewed with suspicion, especially if it lacks international support. Moreover, the 'punishment' must fit the 'crime'. Not only must it be accepted that sanctions are warranted, but the actual scope and severity of them within the context must be examined. Additionally, if international law, as it is deemed to be, is to have any bearing on the situation, then it must be universally applicable, because to date some acts which would indicate collective censure have not necessarily attracted it, whilst other less dubious acts have drawn castigation. These issues are, necessarily, only likely to be resolved at an international political level, and, intertwined as this issue is with legal and moral matters, it is subject to much inconsistency.

A THEORY OF SANCTIONS

Attempts to generalise about a theory of sanctions must start with an analysis of the factors relevant to their functioning drawn from past experiences and received knowledge. According to Doxey, sanctions must be examined in the light of the following considerations:

1. The communications factor, or the extent to which norms and penalties are comprehended.

2. The commitment factor:

   (a) the status of the sanctioning body as an authority structure;
   (b) the availability of alternative institutionalised value systems;
   (c) the status of the norm(s) being upheld by sanction.

3. The competence factor or the competence of the responsible organisation to detect offences, and to apply and enforce sanctions.

4. The value or 'deprivation/gain' factor:

   (a) the estimated or felt impact of the sanction by the target in terms of resulting deprivation;

(b) the value or gain ascribed to non-conforming conduct.[12]

Doxey emphasises the effectiveness of sanctions, simply because only effective sanctions are plausible. Sanctions should not amount to a purely abstract exercise if they are to be concerned with real policy options. In other words, the theory must be based on the evidence and practicability.

With reference to Doxey's schema, the communication factor refers to the perception that protagonists have of their respective value systems. If the sender (sanctioner) and receiver (sanctionee) of sanctions operate within different value systems, then their norms of behaviour will differ and the role of sanctions as a legitimate, deterrent and compliant institution will be open to question. If the receiver does not believe that sanctions fall within these criteria, sanctions then become motivators of conduct rather than indicators of error. Under such circumstances both the sender and the receiver of sanctions must be aware of the penalties to be imposed and incurred respectively. The progatonists must be able to communicate so that the objectives and penalties are fully comprehended. In establishing the deterrent aspect of sanctions, no deterrence is, for example, possible from the point of view of the receiver if it is unaware of what it is being deterred from, or alternatively, with what it must comply . The communication factor is the foundation of a sanctioning policy, for without comprehension little can be achieved.

Doxey analyses the commitment factor by subdividing it into three parts. The first subdivision deals with the status of the sanctioning body as an authority structure, which, she argues, is of prime importance provided the norm and penalty are fully comprehended. In other words, provided the communication factor is met, commitment to a system and its norms i.e. the legitimisation of the international order is most important. The second and third subdivisions deal with related aspects, namely, access to alternative value systems and the status or importance of the norm being upheld by sanctions. If an alleged delinquent state has a different value system, or at least access to such, it may view pressure to confirm as unacceptable within the constraints of its existing value system and norms. A state that has an ambivalent value system and set of norms may be pushed even further from the sender's value system, particularly if unrealistic demands are made of the alleged delinquent.[13].

The next major feature of the general framework above is the competence factor, which refers to the ability of the sanctioning body to detect offences and initiate and enforce sanctions. In other words, it focuses on the operation of sanctions on a practical level, insight into which is possible by studying past sanctions programs.

The last point stressed by Doxey, the value factor, concerns how the sanctioner and the sanctionee view the coats and benefits of sanctions. She emphasises non-material values including the value ascribed to non-confirming conduct, i.e., how the sanctionee views its own value system in relation to that which is sought to be imposed on it. The deterrent value of sanctions may not exert sufficient pressure to ensure conformity, if non-confirmity is highly valued. Indeed, sanctions may reinforce the value of non-conformity in the face of a common, yet ineffectual threat.

This general framework tends to emphasise social and political rather than economic factors. Particular consideration of the competence factor is necessary as Doxey makes no reference to the selection of specific measures, which are necessry if sanctions are to serve as policy instruments. It should be remembered here that we are dealing preclusively with a situation short of war. This distinction is sometimes difficult to draw, and it is fraught with ambiguity:[14] "whilst some advocates of sanctions see them as an alternative to force, there is a contrary view that sanctions can only be effective when force is available and ready to be used if required."[15] However, it seems unlikely that peacetime sanctions will be as effective as wartime embargoes and blockades, due to a more limited material commitment.

TYPES OF SANCTIONS

Sanctions may be essentially divided into three categories - universal, comprehensive and mandatory, which are of course not mutually exclusive. Universal sanctions refer to the number of states involved in sanctions - universal here implying that all states are theoreticlly involved in the sanctioning process. Comprehensive sanctions imply that most items (e.g. those traded) are subject to embargo rather than a select few, and mandatory sanctions refer to the legal or implied legal status of the sanctions. Under mandatory sanctions all states involved are under at least some compulsion or obligation to follow the "law".

TABLE I

CLASSIFICATION OF OBJECTIVES	AUTHORITY STRUCTURES					
	INTERNATIONAL		REGIONAL		UNILATERAL	
	THE LEAGUE OF NATIONS AND ITALY	THE UNITED NATIONS AND RHODESIA	ORGANISATION OF AMERICAN STATES AND CUBA	COMECON AND YUGOSLAVIA	UNITED STATES AND UGANDA	UNITED STATES AND USSR
PRIMARY	The protection of Abyssinia from Italy. The demonstration of the utility of the League of Nations	The return of Rhodesia to legality under the British government.	The prevention of violent subversion in the region. Retaliation for anti-American policies. Incite internal Cuban revolt.	The imposition of economic and political change in Yugoslavia	The removal of the incumbent Ugandan regime	The securing of a Soviet withdrawal from Afghanistan.
SECONDARY	The protection of British interests in the Middle East. The consolidation of the British government's domestic support.	The defence of the British government from attacks by opposition parties.	The attempt to capture domestic American support during an election year.	To halt the spread of opposition to Soviet policies.	To demonstrate to domestic critics the utility of the human rights campaign	To meet criticism of American foreign policy after failure of detente
TERTIARY	The maintenance of the international status quo in the face of European revisionism. To ensure that Italy did not ally with Germany.	The securing of British status within the Common-wealth and United Nations.	The containment of Communism in the Western Hemisphere. To increase the Soviet Union's costs of supply-ing Cuba.	The continua-tion of Soviet domination in Eastern Europe	To illustrate American commitment to Human rights.	To illustrate American concern about Soviet expan-sionism.

AUTHORITY STRUCTURES

On page 8 above, three possible authority structures were identified in general terms. We now examine them in more detail starting with international organisations, of which two have dominated recent history; namely, the League of Nations and the United Nations Organisation. The League of Nations applied sanctions on Italy during the Abyssinian Crisis (1935-6)[16] and the United Nations (UN) imposed sanctions on Southern Rhodesia after she unilaterally declared independence in 1965.[17] The former organisation, though now defunct, provided many of the principles and norms of international conduct. The UN, though it cannot pretend to be a world government, has almost universal membership, and its precepts spell out the rudimentary, widely acepted codes of international conduct. The principle of an international organisation operating on a matter of concern, envisages that all states, or at least an overwhelming majority, act together against a single (or few) transgressor states. Actions by such an international body is preferred to unilateral or regional action, since it is likely to be more readily legitimised. Moreover, the norms of the UN come as close to any universal code of behaviour as may be expected, and thus it may not be out of place to use their principles as a point of reference. Relevant measures, which must be passed unanimously by the executive organ of the UN, the Security Council, are mandatory for members in terms of the UN Charter, and are usually referred to as mandatory sanctions. A potential shortcoming of the organisation is that unanimity in the Security Council may not be forthcoming, in which case the General Assembly can recommend to individual members that they voluntarily apply sanctions. The practical failure, in many respects, of sanctions at an international level can be traced back to the imposing organisation and the concomitant problem of international co-operation.

Contemporary regional authority structures are effectively dominated by the bipolar political system under the leadership of the United States of America (USA) on the one hand, and the Union of Soviet Socialist Republic (USSR) on the other. There are, in addition to these networks, other groups of nations which constitute similar authority structures, such as the Organisation of African Unity (OAU), the European Economic Community (EEC), and the Organisation of Petroleum Exporting Countries (OPEC). Regional (or non-universal) authority structures suffer from limited legitimacy, since the principles or norms on which they act may not, and often are not, universally acknowledged. With the pre-eminence of the USA and the USSR in international relations, any regional set of sanctions that does not have either of these states' support is severely handicapped, though OPEC and the EEC may well have the means to make certain actions effective. Regional sanctions may be applied within the bloc concerned, for example US sanctions against the Dominican Republic (1960-62) and Cuba (1960-), and USSR sanctions against Yugoslavia (1948-55) and West Berlin (1948-49). Where there is little or no conflict of interest between these two superpowers in their respective spheres of influence, there is a tendency for each to give the other a free hand, which may leave regional sanctions unchallenged.

Sanctions imposed by single states acting unilaterally suffer from lack of legitimisaton even more than regional action. But as MacDonald points out "it is well recognised that, as long as collective measures remain undeveloped, individual enforcement is often the only way that a state can protect and vindicate what it conceives to be its rights and liberties. However, the disadvantages of allowing an individual state to enforce the law are obvious: the single state sanctioner produces a situation in which we have auto-determination of the law, of the delict, and of the guilty party, and where, since the effectiveness may often depend on the relative strengths of the states involved, the law is enforced against the weak, but not agaist the strong states."[18] This last point is especially relevant since interstate relationships, no less than interregional relationships, are liable to domination by the superpowers and more often than not economic sanctions, when applied unilaterally, are persuant to the policies of the USA and USSR.

THE OBJECTIVES OF SANCTIONS

The authority structures identified above may find in economic sanctions an expression of a number of objectives. The relationship between the various authority structures discussed in the previous section and the objectives of sanctions set out below, are summarised in Table I (Page 8), with reference to a number of historical examples of sanctioning. The present section itself illustrates the objectives of economic sanctions by concentrating mainly on the Rhodesian, Italian and Cuban cases. Most analysts of sanctions are agreed that sanctions have not been successful in terms of the objective of making the receiver compliant to the demands of the sender. In this connection Wallensteen found that in eighteen cases of sanctions studied, only two were successful, and this was evidently due to extraneous influences.[19] However, the objective of sanctions must not, and cannot be seen as a single, but rather as a multiple one. In each case where sanctions have been applied in recent times, the diversity of objectives is evident. Barbour has identified three categories of aims: "There are 'primary objectives' which are concerned with the actions and behaviour of the state or the regime against whom the sanctions are directed - the'target state'. There are 'secondary objectives' relating to the status, behaviour and expectations of the government(s) imposing the sanctions - the 'imposing state'. And there are 'tertiary objectives', concerned with broader international considerations, relating either to the structure and operation of the international system as a whole, or to those parts of it which are regarded as important by the imposing states"[20] Therefore, if, as seems the case, sanctions have numerous objectives, it is facile to state that sanctions are a success and/or a failure. It may be that some of the objectives are met whilst others are not, and it is possible that they may compete with one another. Moveover, when economic sanctions are applied over a lengthy period of time, the relative weights of individual objectives may shift.

The primary objective in sanctioning Rhodesia was to return her to the British Crown and constitutional legality. The secondary objective was for the British government to counter attacks from opposition parties, and the tertiary objective was to protect British status within the Commonwealth and United Nations. The Labour government under the then Prime Minister, Harold Wilson, recognised that the Southern Rhodesian unilateral declaration of independence (UDI) created a situation which called for a positive reaction. Military action was ruled out, but the British government was 'expected' to indicate its disapproval somehow, even if its options were clearly limited. The decision to opt for economic coercion was not essentially quixotic, as many British politicians, Wilson amongst them, evidently believed in the efficacy of economic sanctions. Nonetheless, a significant symbolic element, which transcends all three posited categories of objectives, was present in this decision. Although this had occasionally been derided, symbols are significant in political relationships. As Galtung has noted, "There is the value of at least doing something, of having the illusion of being instrumental, of being busy in a time of crisis. When military action is impossible for one reason or another, and when doing nothing is seen as tantamount to complicity, then something has to be done to express morality, something that at least serves as a clear signal to everyone that what the receiving nation has done is disapproved of."[21]

It is more difficult to identify secondary and teriary objectives than primary objectives in the context of dynamic internal and external relationships. Harry Strack, for example, cites no less than seven secondary objectives of Rhodesian sanctions.[22] Many of Rhodesia's 'former' trading partners recognised that the Rhodesian crisis had some, albeit minor, significance for their respective domestic politics. For example, the attempts by the American Secretary of State, Kissinger, to secure a settlement in 1976 were made in the light of the then forthcoming American Presidential elections.[23] However, it was mainly in Britain that the Rhodesian issue had any tangible impact on domestic politics. As the United Nations were drawn into the crisis the tertiary objectives of sanctions became more important. Initially, Britain as the leader of the Commonwealth, and with a commitment to decolonisation could have been expected to resolve the conflict. It became a tertiary objective for Britain to sustain her status in the international system, and for the United Nations to demonstrate its utility in resolving international crises. Since Britain was eventually instrumental in organising a settlement of the problem, it could be argued that she gained her main tertiary objectives, although the role of economic sanctions per se is unclear. The Commonwealth remained intact despite the strains placed upon it[24], and by initiating and supporting UN sanctions, Britain enjoyed the external effects of the latter's programme. (Whether these should be regarded as positive or negative, depends on one's personal perspective).

Whereas the primary objective in the Rhodesian case was, to all intents and purposes, straightforward, this is not true in the Italian case, where the ostensible issue of halting the Italian invasion of Abyssinia was complicated by a set of factors operating at all three objective levels. Britain, as the leading sanctioner and the guiding hand in European politics at the time, was involved in many conflicting policy decisions. Apart from the professed objective of shielding Abyssinia from Italian aggression, the primary objective is said to have been to demonstrate the utility of the League of Nations as a deterrent against German revisionism[25] and to avoid involving Europe and the world in a very serious crisis.[26] Britain did not want to alienate Italy, but she felt obliged to indicate disapproval of Italian aggression. As a result mild economic sanctions, more as a token than anything, were imposed on Italy. In such a case of sanctions, the distinction between primary and tertiary objectives is vague. As Barber notes, "It was important to settle the dispute, among other reasons, because of Britain's obligations to the league; in order to safeguard British interests on the

Upper Nile; to retain Britain's friendship with Italy - which was important in guaranteeing the Mediterranean route for British communications with the Middle and Far East; to avoid a rupture with France, and to make it unnecessary for France to keep an army on the Italian border; to ensure that Mussolini was not thrown into Hitler's arms; and because there was an increasing threat of war in the Far East arising from Japanese aggression."[27] Moreover, public opinion, particularly in Britain, demanded that positive action be taken without recourse to arms. The Abyssinian Crisis became an election issue in Britain, and as Lloyd-George said of sanctions against Italy: "They came too late to save Abyssinia, but they are just in the nick of time to save the government."[28]

In the case of sanctions against Cuba, they were instituted on a regional basis by the Organisation of American States (OAS), but the OAS was so heavily dominated by the United States, that this example of sanctioning has all the features of unilateral action. It was the Cuban attempts in the late 1950s to break completely with her historical, political and economic domination by America that precipitated American sanctions. If the OAS had an objective of its own as regards its anti-Cuban activities, it was probably the prevention of political subversion in the region. The United States' objectives were officially stated to be four in number. "Firstly, to reduce the will and ability of the present Cuban regime to export subversion and violence to the other American states. Secondly, to make plain to the people of Cuba, and to elements of the power structure of the regime that the present regime cannot serve their interests. Thirdly, to demonstrate to the people of American Republics that Communism has no future in the Western Hemisphere; and fourthly, to increase the cost to the Soviet Union of maintaining a Communist outpost in the Western Hemisphere."[29]

These objectives present a conglomerate of primary and tertiary motives, to which can be added secondary domestic US reasons for pursuing sanctions. The Cuban crisis came to a head during the American election year of 1960, and the strong public outcry against Cuban expropriation of American assets and anti-American rhetoric, was bound to have an effect on domestic US policies. The announcement of the ban on US exports to Cuba was timed by President Eisenhower to help the presidential campaign of Richard Nixon, whilst Nixon's opponent, J F Kennedy, criticised the "weak" administration response and promised to "do something about Fidel Castro."[30] Both presidential candidates and the incumbent Republican administration attempted to capture public support which swung against the "speck of a country" which was "spitting in our face".[31]

These three cases of sanctions clearly indicate the diversity and complexity of motives for pursuing economic coercion. Difficult though it may be, it is necessary to critically and consciously analyse the objectives of sanctions programs, especially at a primary level since primary objectives are presumably the raison d'être of sanctions. Both the senders and the receivers of sanctions must be aware of these objectives, and they must be specified as the standard(s) in terms of which sanctions are initiated and conducted, if the sanctions are to be effective. However, Anna Schreiber suggests that, "It is mainly its symbolic function that makes economic coercion a tempting policy to governments"[32] and concludes that if this is true, then, regardless of concrete results, governments will continue to use sanctions as a tool of foreign policy.

THE NAIVE THEORY OF SANCTIONS

Despite their many and varied objectives, there are certain common features of economic sanction programs that should be analysed to determine their effectiveness. The first and possibly most cogent of these features is that postulated by Johan Galtung in his useful work on the theory of sanctions.[33] The failure of sanctions to achieve their primary objectives is, Galtung maintains, founded on the failure of the sender to anticipate fully the response to sanctions on the part of the receiver. Galtung thus postulates a "naïve" theory of sanctions in the following terms: "The naïve theory of the relation between economic warfare ... and political disintegration sees some kind of roughly proportional relation; the more value-deprivation, the more political disintegration. The idea is that there is a limit to how much value-deprivation the system can stand, and that once this limit is reached ... then political disintegration will proceed very rapidly and will lead to surrender or willingness to negotiate."[34] This viewpoint is supported by Strack, who also writes: "The effectiveness of a sanction ... is dependent not only on its economic characteristics but also upon the social characteristics of the target population. The reaction to economic attack is a function of personality, culture, and social organisation."[35] Galtung further points out that, "the naïve theory disregards the principle of adaptation and fails to take into account the possibility that value-deprivation may initially lead to political integration, and only later - perhaps much later, or even never - to political disintegration."[36] As Curtin and Murray assert, this theory depends on the belief that threatening peoples' economic livelihood is as effective as threstening their lives.[37] Doxey also notes that "the ideological orientation of the target may prove an additional strength in its ability to resist sanctions."[38]

Attempts by the sanctioner to effect changes in the political policies of the sanctionee will obviously be resisted by the sanctionee. The link between economic deprivation at the most basic level, and political change is far from clear. This supposed link is based on the idea that if the incomes and welfare of the target group are depressed sufficiently, this will cause discontent, eventually leading to some political change. Obviously, the political change which may follow, need not be that which the sanctioner necessarily desires, as was the case when US sanctions were applied on the Dominican Republic.[39].

Short of direct military involvement, the desired political change cannot be guaranteed. The nature of this link is well summed up by Doxey who writes that in the Rhodesian case British civil servants at the Department of Economic Affairs advised that when the national income declined to a point, that they believed could roughly be assessed, Rhodesia would accept that the game was no longer worthwhile.[40]

Self-preservation is a natural reaction of any target state. This applies not only to economic counter-responses but also to social and psychological factors that constitute the national character. Senders of sanctions have in the past anticipated some defensive mechanism on the part of receivers, but they have also seriously underestimated the extent of the response. Judging from past cases, it appears that when a nation finds its own legitimised value system under attack, latent forces are activated within that nation aimed at protecting that value system. This force can also be supplemented by official dissemination of propaganda. A siege mentality may develop, and, certainly in the long term, this is a source of political cohesion rather than disintegration; this was, for example, the case in Cuba, Italy and Rhodesia. Nationalism, patriotism and xenophobia may be kindled and become a major source of strength within the system. In Rhodesia, prior to UDI, most businessmen vehemently opposed the unilateral severance of the British connection but after UDI they were more than prepared to secure the economic future of the "newly independent nation". As Galtung notes, "The goals of the system may not only be maintained but even reinforced; the sending nation(s) not only may fail to achieve their goals, but may even contribute to exactly the opposite of what they hoped for."[41]

In the case of Cuba, Schreiber concluded that US sanctions had a perverse effect, as the Castro regime was strengthened, and its isolation aided Russian involvement.[42] In the case of Italy, Baer concluded; "What was meant to be only instrumental economic pressure to elicit internal protest was transformed by the Italian government into a cause for rapid intensification of integral economic and political nationalism. Far from imposing on the Italian people a desire to reverse their government's policy, sanctions made the Ethopian war popular."[43] Strack writes on Rhodesia that, "Not only did sanctions fail to achieve their major goal, but they may have been a contributory factor to the deterioration of a situation which they were designed to alleviate.[44] A similar sentiment is expresed by Kapungu; "in no way can the Rhodesian rebellion be said to have been weakened by economic sanctions; in fact economic sanctions have welded together the Rhodesian conservative element in support of the survival of the regime."[45]

A further misconception engendered by the so-called naïve theory is that which sees the target state as an amorphous whole. Sanctions are designed to alter government policy, but they are aimed, not specifically at the government but at the citizens at large, regardless of whether or not they are instrumental in the formulation of government policy. In countries such as Rhodesia and the Dominican Republic, significant proportions of the population had little say in the formulation of government policy. The utility of imposing economic deprivation on people who cannot control government policy is, at best, debatable, as the incidence of sanctions cannot be expected to fall collectively within the target state on an equal basis.

SOME PROBLEMS OF SANCTIONS

The naïve theory of sanctions suggests that if the receiver's foreign trade is distributed among few trading partners and a small number of goods its vulnerability to economic sanctions should be great. But the theory overlooks the influence of time and the associated nature of trade itself. It is not possible to halt trade immediately, and forward contracts may be honoured for years after the imposition of sanctions. Traders may also take steps to circumvent sanctions in which they may be assisted by the local government. Moreover, not all states may adhere to, or comply with, sanctions. The problem of securing universal adherence to sanctions policies is highlighted in both the cases of Italy and Rhodesia. The sanctions program against Italy was complicated because the USA and Germany were not members of the League of Nations, and thus did not apply sanctions. Action against Italy was also avoided by, amongst others, Austria, Hungary, Albania and Switzerland. In the Rhodesian case both South Africa and Portugal (and her colonies) amongst others, continued to trade with the target state.

A further problem is the distribution of costs amongst the senders in terms of trade losses, and the enforcement and policing of sanctions. The distribution of costs may not be proportional to the desire for change in each sanctionee. Galtung has also argued that frequent resort to economic sanctions will promote a decrease of interdependence and integration among states, and an increase in their adoption of isolationist policies.[46] As Doxey has indicated; "Economic impoverishment of any state is undesirable unless there are very compelling reasons for it; the world is already beset with economic difficulties. Development, not retardation, is a prime goal and long term harmful economic effects cannot be readily expunged when sanctions end.[47] Economic sanctions are not susceptible to 'fine tuning': they are blunt instruments which may miss their true target and can also have a boomerang effect."[48] As the application of sanctions impinges on the international division of labour, sanctions may not only (directly) harm the economy of the target state, but may also have indirect negative consequences on the international economy, including the sender itself; for example, the ban on Rhodesian chrome exports adversely affected US industry and led to the Byrd Amendment by which, in terms of US law, this ban was repealed. Sanctions programs may also run counter to world economic conditions. In a recession imposing states may oppose the loss of trade with the target country, and during a boom input markets may be under-supplied.

Commitment also varies. The machinery for implementing sanctions set up by the League of Nations and the United Nations both depend(ed) almost exclusively on information supplied to them by member states. The longer the sanctions program runs, the greater are the strains and tensions among the senders. The suspicion and distrust which can thus be generated is illustrated by American and Dutch complaints of British behaviour over Rhodesian sanctions. On the one hand the Americans accused Britain of being lax in her efforts, and on the other the Dutch complained of being unfairly singled out in British reports on sanctions breaking.[49] As Galtung has remarked, "the diversity of motives for not making sanctions complete is impressive."[50] Such diversity is a factor on which skilful government in a receiving nation can base policies designed to demoralise the sending nations. A target nation has the advantages of internal lines of communication and unity of purpose, whereas a multinational sanctioning body has no such advantages, and the sanctions apparatus will only be as effective as the information flow allows.

Not only do tensions arising from limited commitment to sanctions increase with time, but they are exacerbated when commitment was not complete to begin with. Those governments who impose only token sanctions may serve to break down the collective will to ensure an effective campaign. Moreover, nations who may have the least to lose materially are often the loudest advocates of sanctions, and those nations which impose sanctions most stringently may actually have to do little beyond maintaining the status quo ante. The effectiveness of sanctions is likely to rest upon those few states who have the most to lose economically, and are therefore least likely to pursue a stringently enforced campaign. The goals of sanctions cannot be isolated from other national and international issues and may be given a comparatively low priority in the imposing states.

A further problem associated with sanctions is the regional perspective. Strack and Brown-John stress the geopolitical factors in the organisation of effective sanctions. Rhodesia, for example, was dependent on contiguous states for access to sea-transport routes, and Strack concludes that, ceteris paribus, if Mozambique and South Africa had applied sanctions, the campaign would have been effective.[51] Brown-John makes a similar point when he stresses that transportation routes and geographical factors are significant ingredients in any sanctions campaign and concludes, "future considerations of sanctions programs must devote considerably more effort to reconciling interests of contiguous states, especially if they claim neutrality, or are hostile to the intent of sanctions."[52] Moreover, the British (or League of Nations) failure to close the Suez Canal in 1935, meant unhindered Italian supply to their Abyssinian invasion force. However, the idea of sanctioning a whole region purely for the delinquency of one of its members is hardly a practical proposition.

Both national governments and multinational organisations have to face the organisational difficulties of administering and supervising sanctions programs. Many countries may, however, be unable to accurately monitor international transactions, and are, therefore, not in a position to detect sanctions violations or to halt them. Many national frontiers are capable of penetration and some governments may not have the legal authority to maintain control.[53] Although governments may not have the control to enforce sanctions, Shepherd has questioned whether this is a necessary condition for their success.[54] He maintains that non-governmental organisations can exert pressure which has a greater impact than official policy. Multilateral action by such non-government organisations as churches, business firms and trade unions can also exercise a form of pressure on official policy.

It would emerge from past experience that, for maximum impact, sanctions should be imposed comprehensively rather than selectively, and immediately rather than gradually. As Taubenfeld notes, the "experience of both the League and the United Nations appears to warrant the ... conclusion that, to have a substantial chance of success, any form of international measures would have to be promptly applied, all-inclusive, effectively administered, and maintained in force for whatever length of time was necessary to bring the sanctioned state into compliance."[55] However, creeping and/or selective sanctions have political and diplomatic appeal, even if they do not represent tools of optimal economic coercion. Similarly the threat to use sanctions against a target state gives her time in which to make provision for any anticipated adverse effects. The need to implement immediate sanctions raises problems for multilateral enforcement agencies as their nature predicates against swift consensus. In this respect unilateral action is more effective, as the decision-making process is obviously simpler.

CONCLUDING REMARKS

Despite the problems of organising it, an effective santions program can be successful, as is illustrated by the campaign against Uganda during 1978 and 1979 where the object of the exercise was to bring down the regime of Idi Amin. The sender of sanctions was the United States which, acting unilaterally, legislated immediate mandatory and comprehensive sanctions. Although Uganda was heavily reliant on one export commodity, namely coffee, it was not the boycott of this specific crop that made sanctions succeed, as alternative markets for it existed. However, the US trade ban on oil and its derivatives, machine spare parts and computer technology, combined with the ineptitude and corruption within Uganda provided the necessary ingredients for success. J Miller notes on this point that, "while the coffee boycott failed, the American sanctions proved devastating to the Ugandan economy and they helped set in motion the events that led to the fall of the regime. In that respect the US boycott can appropriately be called a success."[56]

Clearly, there is no universal control model for the theory of sanctions on which to draw. Nonetheless, by learning from past experiences, it is possible to construct a general framework within which the phenomenon of economic sanctions may be analysed. The general methodology, as distinct from the theory, of economic sanctions essentially falls into a familiar pattern, namely, the ends-means schema encountered virtually throughout economics. The "ends" of the exercise is to achieve a pre-determined objective (which may well be a multiple one) by the allocating and manipulating of available "means" towards this purpose by the imposing state(s). The ultimate ends are more than likely bound to be of a political (or ethical) nature (e.g. the reversal of an act of territorial aggrandisement, the adoption of internationally demanded electoral norms, etc.), while the immediate means may also have a strong political or quasi-legal colour (e.g. boycotts, embargoes, confiscations, etc.) The "economic" aspect of sanctions is essentially an intermediate one, where economic variables may be viewed as either "ends" or "means", at least from a methodological point of view. As the immediate aim of boycotts, embargoes, etc. is to inflict damage on the economy of the sanctionee, economic variables may thus be seen as the "ends" of sanctioning. However, they are only ends in an intermediate sense, as the ultimate aim of sanctions is to achieve a political objective, in which case economic variables again emerge as the "means" of the exercise.

This methodological complication need not, in principle, unduly complicate the "efficiency" of a sanctions program. The comparative lack of success on the part of economic sanctions is probably rather more due to such "practical" considerations as the reluctance to invoke seemingly efficient policy measures on normative grounds, imperfect understanding of the links between the ends and means of the exercise, and, especially, the negative external effects of sanctions on the sanctionee itself or the international system at large. Such constraints are, of course, greatly weakened when "economic warfare" is only one aspect of a total war, that is, when the national interest of the sanctioner is pursued to the virtual exclusion of other considerations.

Economic sanctions in times of peace, however, lack such a sense of purpose and, by trying to reconcile too many conflicting elements, they tend to be reduced to an inefficient and, therefore, ineffectual exercise. In principle, there seems little functional difference between "economic warfare" and "economic sanctions"; in practice, however, they are likely to be vastly different in their respective impact and outcome.

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CHAPTER II

SANCTIONS AND THE ECONOMY

As stated at the end of the previous chapter, the immediate target of a sanctions campaign is the national economy of the sanctionee. After a brief statement of the nature of the impact that sanctions are designed to achieve on economic welfare, this chapter outlines the observed effects on the South African economy, as seen by various observers. The chapter concludes with a summary of different approaches to the economic effects of sanctions and the corresponding policy implications.

SANCTIONS AND WELFARE

Figures 1 and 2 illustrate the potential loss of economic welfare to a society which is deprived of its foreign trade by means of sanctions, by conventional static analysis. Figure 1 assumes a hypothetical target country that produces and consumes two commodities and initially trades freely at exogenously determined prices. It displays the usual concave production possibility frontier, a convex community indifference curve, and the optimising terms of trade or price ratio, tangent to both curves. For maximum welfare (Wo), the country produces Xo and Yo, exports X and imports Y, and consumes X_1 and Y_1. Trade enables the country to consume outside its production possibility frontier, i.e. it can achieve a higher community indifference curve. In Figure 2, a dashed community indifference curve(W_1) is added which shows the highest welfare the country can attain if it is unable to trade. It therefore produces and consumes X_2 and Y_2 at a consequently lower welfare level W_1 rather than W_0. This reduction in welfare can be stated in terms of X and Y, i.e. the real income level of the country. If the target country's community indifference curves are homothetic, then it will be indifferent between the autarchic consumption bundle, X_2 and Y_2, and the bundle X_3 and Y_3, that it would rather consume at the given world relative price ratio but at a reduced real income level. Therefore, a possible measure of the welfare loss due to sanctions that preclude trade, is the relative loss of real income imposed on the target country, which can be stated as $(Y_1-Y_3)/Y_1$ or $(X_1-X_3)/X_1$. It is apparent from Figure 2 that the size of this loss is determined by three features; namely, the steepness (or concavity) of the production possibility frontier; the steepness (or convexity) of the community indifference curve; and the size of initial trade. The steeper the production possibility frontier and community indifference curves, the more successful will be the trade-stopping sanctions, ie, the more inflexible production and consumption patterns are, and the greater the initial dependence on trade.

Apart from such direct welfare loss that import and export sanctions may achieve, the economy of the sanctionee would experience further similar losses if sanctions also succeed in reducing its rate of economic growth, for example, by depriving it of the necessary capital goods and causing unemployment of labour.[1] In terms of Figures 1 and 2, the effective production frontier would then shift towards the origin of the diagram, and relegate the economy to an even lower level of social welfare (lower-order community indifference curve).

SANCTIONS AND THE RHODESIAN ECONOMY

The most analytical work in this context undertaken by indigenous Rhodesian economists is that of A M Hawkins, who, with an intimate knowledge of the Rhodesian economy, offered a succinct account of the state of that economy in August, 1967, after twenty months of sanctions, twelve of which were voluntary and eight mandatory.[2] Writing on the period he concluded that sanctions had failed to depress economic activity to the extent that was intended. Hawkins also discussed the recession experienced in Rhodesia between 1961 and 1965, and pinpointed problem areas such as investment, employment, immigration of non-whites, the balance of payments and foreign trade. Data are provided to illustrate the initial decline and recovery after sanctions were imposed. He maintained that sanctions had till then been ineffectual, due to inconsistencies in their application and Rhodesian counter-responses, which included stockpiling, judicious monetary and fiscal policy, foreign exchange and manpower controls, import substitution and agricultural diversification (exports). He concluded that the short term prospects for the Rhodesian economy were better than could have been expected, but that long term prospects depended on the maintenance of steady and high rates of growth in all sectors of economic activity. The main reservation held about Hawkins' analysis would appea

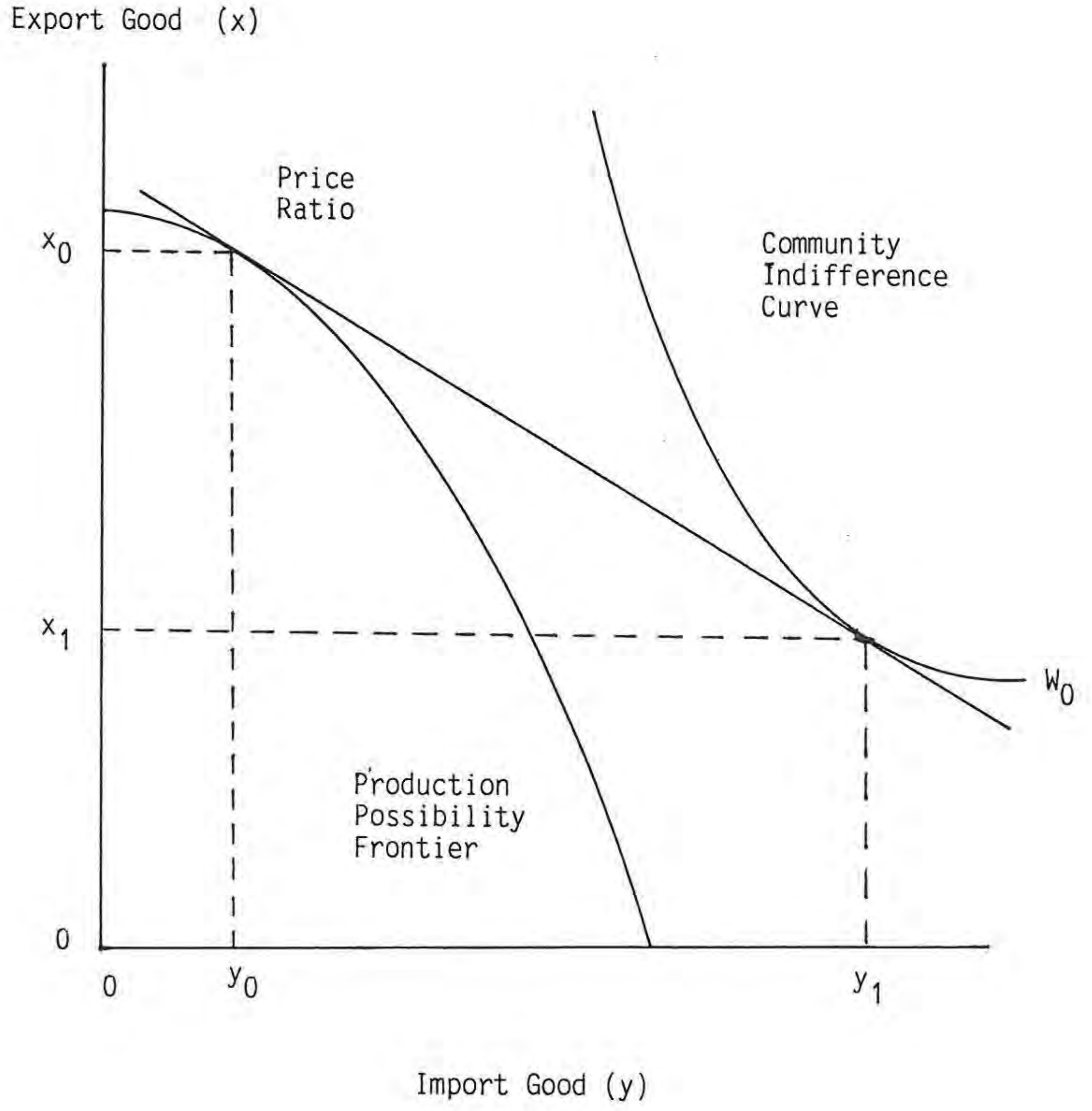

FIGURE ONE : WELFARE OPTIMISING PRODUCTION AND TRADE PATTERN

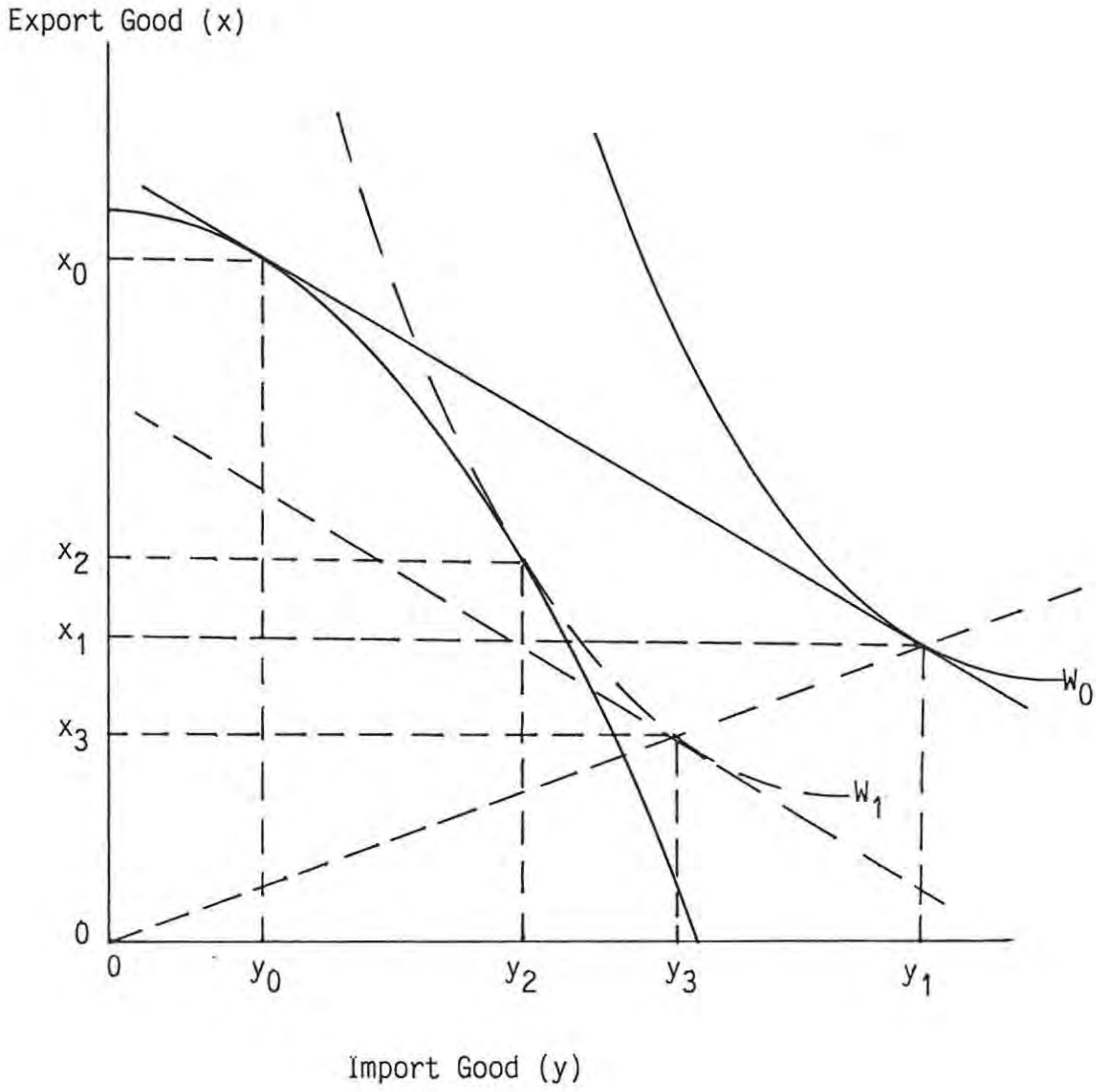

FIGURE TWO : STATIC WELFARE LOSS DUE TO SANCTIONS convexity) of the community indifference curve; and the size of initial trade. The steeper the production possibility frontier and community indifference curves, the more successful will be the trade-stopping sanctions, ie, the more inflexible production and consumption patterns are, and the greater the initial dependence on trade.

Apart from such direct welfare loss that import and export sanctions may achieve, the economy of the sanctionee would experience further similar losses if sanctions also succeed in reducing its rate of economic growth, for example, by depriving it of the necessary capital goods and causing unemployment of labour.[1] In terms of Figures 1 and 2, the effective production frontier would then shift towards the origin of the diagram, and relegate the economy to an even lower level of social welfare (lower-order community indifference curve).

SANCTIONS AND THE RHODESIAN ECONOMY

The most analytical work in this context undertaken by indigenous Rhodesian economists is that of A M Hawkins, who, with an intimate knowledge of the Rhodesian economy, offered a succinct account of the state of that economy in August, 1967, after twenty months of sanctions, twelve of which were voluntary and eight mandatory.[2] Writing on the period he concluded that sanctions had failed to depress economic activity to the extent that was intended. Hawkins also discussed the recession experienced in Rhodesia between 1961 and 1965, and pinpointed problem areas such as investment, employment, immigration of non-whites, the balance of payments and foreign trade. Data are provided to illustrate the initial decline and recovery after sanctions were imposed. He maintained that sanctions had till then been ineffectual, due to inconsistencies in their application and Rhodesian counter-responses, which included stockpiling, judicious monetary and fiscal policy, foreign exchange and manpower controls, import substitution and agricultural diversification (exports). He concluded that the short term prospects for the Rhodesian economy were better than could have been expected, but that long term prospects depended on the maintenance of steady and high rates of growth in all sectors of economic activity. The main reservation held about Hawkins' analysis would appear to be his comparison of Rhodesian post-sanctions economic experience with pre-1965 performance which was itself subject to the abnormal conditions of the Central African Federation.[3]

Hawkins followed up his initial research with a re-evaluation in 1976[4] and his conclusions were much the same despite the ten year time interval. In this later study the post-sanctions growth of the economy was divided into two distinct periods viz.; 1963-1968, during which time Gross National Product (GNP) rose at the average rate of only 2,8 percent per annum, and real income per capita fell; and 1968-74 during which time real GNP rose at the much higher rate of 8,3 percent per annum. Despite the comparatively impressive performance during the latter period, he argues that growth would have been greater in the absence of sanctions.

A more recent and less detailed economic analysis of the Rhodesian experience, again by an indigenous economist, is that of E G Cross, who explains in aggregate terms why it was expected in 1965 that sanctions would be successful.[5] He stresses the relative smallness of the Rhodesian economy, its lack of diversification and its openness to the world economy. The sanctions era is divided into three distinct phases, 1966-1967/8; 1967/8-1974/5; and 1975 to 1979. The first phase is characterised by a fall in output in many key sectors but GNP remained approximately constant at real 1965 levels. There was, of course, a decline in per capita income. The second phase is characterised by unprecedented growth due to import subsitiution and diversification, which was aided by government policy. In phase three, a number of internal and external factors in addition to sanctions were brought to bear on the economy. The escalation of the civil war and border closures with Zambia and Mozambique compounded the effects of sanctions, and income per capita fell by almost 25 percent between 1975 and 1979.

This study contains some disaggregation by analysing the impact of sanctions on the manufacturing, mining, agriculture and foreign trade sectors. Cross notes that one of the major reasons for the deep Rhodesian economic recession after 1975 was the decline in world commodity prices. Moreover, Rhodesian producers also found it increasingly difficult to sell their output in world markets because of deficient demand, apart from sanctions. In conclusion, Cross points out that the management of the Rhodesian economy under sanctions holds a valuable lesson for other Third World countries faced with problems of the interaction of foreign trade and domestic activity in generating development.

One of the first major external evaluations of sanctions on the Rhodesian economy was undertaken by T Curtin and D Murray, under the auspices of the Institute of Economic Affairs in London, and published in 1967 only two years after sanctions were imposed.[6] An input-output analysis of the economy was used to show that the effects of sanctions had been overestimated, which was, in the opinion of the authors, because most white Rhodesians (the intended target group) were employed in the manufacturing, distributive and other relatively insulated sectors of the economy. Also the scope for local production of manufactured imports largely neutralised the loss of export markets. They concluded that the possibilities for import substitution were such that the longer sanctions continued, the less their effects would be.

A similar conclusion was reached by P B Sutcliffe, though he emphasised the difficulties inherent in organising an effective sanctions campaign.[7] He also noted the costs to Britain of imposing sanctions on Rhodeisa, and the vital role played by South Africa in the regional context. Moreover, he saw the failure of sanctions, in part, in the ability of Rhodesian whites to pass on the major impact of sanctions to the black majority.

Further research by R T McKinnell notes the success of Rhodesian counter-measures in the short run, despite the probability that average real income per capita declined by some 15 percent during 1966, the first full year of sanctions.[8] He, too, shows how the burden of sanctions, in terms of income loss and unemployment, was shifted onto the rural majority and foreign migrant workers. Although Curtin and Murray intimated that the longer sanctions continued the less impact they would have, McKinnell disagreed. He stressed the role of investment and noted that the initial impact on Rhodesia was greater than first appearances indicated when the long run growth prospects were examined. The true economic costs of sanctions only appeared as capital goods depreciated and no replacement was forthcoming from imports. Margaret Doxey is in broad agreement with McKinnell.[9] She contends that sanctions created severe long term problems for the Rhodesian economy, exacerbating unemployment, discouraging immigration of skilled personnel, and diverting economic resources into unprofitable and less efficient channels.

Economic models of the Rhodesian sanctions experiment implicitly infer that the absence of success for the campaign (a subjective issue) does not imply absence of welfare loss. Though it is no easy matter to separate the economic consequences of sanctions _per se_ from the effects of other extraneous political and economic factors, it would appear that sanctions exacerbated the problems facing the Rhodesian government. Two such sanctions-generated problems were the earning of foreign exchange and the importation of capital goods: sanctions prevented the free marketing of Rhodesian goods, which often had to be sold at a discount. Therefore foreign currency was limited and less goods could be imported. This was particularly significant for the importation of capital goods, as, given technological and market-size constraints, no significant import substitution of capital goods was possible. Therefore, as capital goods wore out they could not be replaced. As long as sufficient foreign currency was available to service the needs of capital replacement, the economy could be sustained indefinitely, but the increasing capital depreciation and dwindling reserves of foreign currency placed the economy under increasing pressure.

SANCTIONS AND THE SOUTH AFRICAN ECONOMY

There is now a considerable literature on the debate over economic sanctions against South Africa, which is reviewed in the following and subsequent chapters. Since sanctions have not yet been generally applied, much of the debate focuses on their potential significance and possible impact. The trend in the literature, towards arguments either for or against sanctions, may, from the viewpoint of the economist, seem somewhat irrelevant, as the basic decision to implement sanctions is likely to be essentially political; commentators often have a political axe to grind and information is selected to fit specific preconceived opinions.

Active periods of discussion about sanctions on South Africa occurred between 1963 and 1965, and during 1977 and 1978, when it may have appeared that sanctions were imminent.[10] An international conference met in London in 1964 to discuss the implications of applying sanctions against South Africa.[11] The conference focused mainly on the legal, moral and political indictment of South Africa, but it did include some economic discussion. Selective sanctions on trade, oil and gold were considered. It was recognised that South Africa has an open economy and therefore may be vulnerable to economic sanctions. South African input-output tables for 1956/7 were examined, and the large contribution of imports to consumer, intermediate and especially capital goods was noted. No financial or investment analyses was undertaken; not were potential losses in income and employment estimated.

Response from South African commentators was muted[12] until the late 1970s, partly because much foreign literature on the subject of economic sanctions is banned in South Africa. One of the first detailed South African studies of this nature was that of Arnt Spandau, which, partly due to its anti-sanctions bias, and partly due to its relative novelty was given widespread local prominence[13]. Considering both "normative" and "factual" issues, Spandau argued that there was no economic basis for sanctions, and that social and political change in South Africa could be achieved by economic growth. The application of sanctions would be followed by a short term boom related mainly to import substitution. Spandau investigated the current and capital accounts of the balance of payments, the potential for import substitution and selective sanctions on oil and oil derivatives. However, the study implicitly glossed over the long term prospects for growth under sanctions. There are also technical shortcomings in Spandau's work, as for example, his analysis of the effects of investment and trade boycotts by means of an input-output model. As the construction of and predictions yielded by such models relies on fixed co-efficients, they are poor instruments of anything but static economic analysis. Spandau's model ignored the multiplier effects of trade and investment boycotts beyond the first year of sanctions, and he evidently paid little attention to the time lag between sanctions and economic variables like Gross Domestic Product, disposable income and employment. Spandau also treats the effects of trade and investment sanctions autonomously, whereas they are functionally related rather than independent variables. The analysis is also inconsistent, in that the crucial mining, agricultural and services sectors are included in the investment analysis but excluded in the trade analysis.

D G Clarke has commented on Spandau's work as follows: "Implicitly, questions over the Spandau model raise the problem as to how best to conceive of trade sanctions effects. Is it reasonable to derive results from a static model which traces the impact of a once-off cut in export values? Are there not other better and more realistic models which could be used - to incorporate, for instance, the probability of a sharp once-off effect (which occurred in Rhodesia in 1966), a declining (X-M)/GDP ratio over the years, and the possibility of a constant (or even rising) discount on traded commodities and services? If so, the latter approach would better represent the dynamic 'costs' of sanctions in terms of lost income and foreign exchange; and they would make the potential costs higher than normally estimated."[14] Nonetheless, Spandau's work is the longest and most comprehensive publication on economic sanctions from within South Africa to date. In the main, the criticisms that can be levelled at his research are, perhaps, technical issues which, rather than indicating inadequate analysis, signify the complexity of the problem.

Further South African research into the sanctions issue has been undertaken by T Malan.[15] He emphasises the limited efficacy of economic sanctions as a means to achieve political ends. His approach rests on the relationship between foreign trade and domestic income, rather than on a static model, and he stresses the countervailing potential of the South African economy. As is typical of some other South African studies, Malan perhaps underestimates the potential economic impact that even a badly organised campaign may have. For example, research into the sanctions issue by both Geldenhuys[16] and Hamersma[17] accentuates the difficulty of organising and implementing sanctions, especially in the face of South Africa's geopolitical position and her strength in countering sanctions. A seemingly more balanced appraisal of the probable economic consequences of sanctions is contained in the Sanlam Economic Review[18], which, though it draws heavily on Spandau's estimates, also addresses itself to broader perspectives. In particular, it identifies several sectors of the economy as being vulnerable to selective and comprehensive sanctions. The sectors of concern are either largely export-orientated or markedly dependent upon imports for their inputs. The survey also considered the possible regional impact of sanctions, and found that there were certain areas which could suffer badly under sanctions, e.g. Western Cape in respect of fruit growing and fishing. This review infers that although South Africa may weather the sanctions storm, the cost would be high, particularly in respect of long term growth.

South African commentary in general stresses points like the innate strength of the country; her ability to retaliate; her importance to the West as an ally; the difficulties in organising an effective sanctions campaign; the belief that at the extreme only selective sanctions will be instituted, and that the impact of sanctions will fall most heavily on the non-white majority. Whether these assumptions are realistic or not, cannot of course be proven. However, even if they were to be correct, the economy would be adversely affected. This point is reflected in comment made by Bethlehem: "I do not believe that we can take comfort in examining our raw materials, our export potential, our importance as trading partners, and therefore take comfort in the belief that economic boycotts or sanctions will not hurt us. I think we face tremendous dangers."[19]

Whilst internal debate did not pick up in South Africa until the late 1970s, much international concern was being expressed on the subject of South Africa and sanctions in the interim period since the 1964 London Conference referred to above. Although official policy abroad before 1976 did not visualise sanctions as an instrument to achieve political change in South Africa, many non-government groups did advocate economic sanctions. The early 1970s were characterised by international polarisation on the issue of economic disengagement from the South African economy, emphasis often being placed on investment. This prompted a number of studies on the economic and political implications of economic disengagement, which are described more fully in the following and subsequent chapters. However, in this connection, more recent research by R Porter has claimed that South Africa's foreign trade would have to decline by as much as 30 percent before sanctions would have a material short term effect on the level of economic production.[20]

As sanctions became a more lively political issue in the late 1970s and early 1980s, a major study of American policy towards Southern Africa was undertaken by the Foreign Policy Study Foundation,[(21)] under the auspices of the Rockefeller Foundation and the University of California.This publication deals with bilateral relations between South Africa and the United States, and concentrates mainly on the wider policy implications of these relations, both in a regional and global perspective. It does not provide a thorough study of sanctions per se, but they are discussed from a general policy viewpoint. The authors recommended that under present circumstances neither sanctions, nor disinvestment should be ventured as they would be neither feasible nor effective. The International University Exchange Fund also compiled a series of research papers which cover a broad spectrum of the case for sanctions and related issues,[22] and thus represent a comprehensive and detailed study of the implications of sanctions on South and Southern Africa. The general thrust of the arguement in this series is that, "It is now widely accepted that economic sanctions could be made effective, and have a serious impact on South Africa."[23] Since the series is the work of many commentators the accuracy and character of the economic analysis varies from paper to paper. However, the economic framework of the discussion if not the conclusion generally appears sound, providing sectoral disaggregation of the economy, the expected impact on the region as a whole, potential welfare loss, and both trade and financial relations with the rest of the world, although it appears deficient on the organisational side of sanctions. However, these and other recent publications will be discussed in greater detail in the remainder of the thesis.

ECONOMIC APPROACHES TO SANCTIONS

With reference to the introductory remarks at the beginning of this chapter, Porter has identified five alternative views about how sanctions work.[24] The different analytical approaches to the question about to be discussed below, are also summarised below in Table 2. The first view stresses the flexibility of consumption and production patterns. The less flexible these patterns are, the greater impact economic sanctions will have. Those sectors of the economy which are least flexible will be most affected. If inflexibility is apparent in only some sectors the policy implication is that partial or selective sanctions are potentially fairly effective. The second view is that even if the static real income deprivation is not large, it is significant, because it represents losses at the margin which will appear as increasing inefficiency in the use of labour and capital, reduced saving and investment rates, and therefore a lower rate of growth of output. This view emphasises the dynamic costs of sanctions which implies that sanctions are a long term instrument.

A Keynesian approach would presumably view lost exports as lost aggregate demand, which would, via the multiplier, cause recession and unemployment. This model focuses on the loss of aggregate demand rather than supply. The policy implication is therefore that exports are the critical factor, whereas the previous two approaches above emphasise the importance of imports. A further approach to the issue of sanctions and South Africa sees the problem in terms of dualistic development, where an "unlimited" supply of black labour is available to the white-controlled industrial and agricultural sector of the economy at a low, constant irreducible cost. According to these assumptions the impact of sanctions cannot be shifted onto the black people so any potential loss of welfare will affect only the white people.

The last view identified by Porter is based on the ideas of Myrdal, Singer and Prebisch with regard to economic development. They believe that a developiong country must free itself of "dependence" on the export of primary products if it is to successfully pursue economic development. The necessary policies

TABLE 2

SOME ANALYTICAL APPROACHES TO ECONOMIC SANCTIONS

APPROACH	FOCUS	POLICY IMPLICATIONS
DEMAND	A Keynesian approach which dwells on the impact of lost exports as being a loss of aggregate demand and hence a cause of recession and unemployment.	Stop the target country exporting
vs		
SUPPLY	A neo-classical approach which emphasises the loss of imports as a factor in the loss of economic welfare.	Stop the target country importing
SHORT TERM	An analysis of the flexibility of the economy in a static sense. Also looks at stockpiling and other precautionary moves.	Short, sharp sanctions
vs		
LONG TERM	Focuses on growth and therefore a dynamic approach. Emphasises the possibilities for flexibility in the economy and critical losses at the margin in the capital and investment sectors.	The need for patience and persistence.
COMPREHENSIVE	Stresses the need to halt all trade and investment flows between the target nation and the rest of the world to achieve success.	Stop all imports, exports and capital flows
vs		
SELECTIVE	Points to the vulnerability of certain sectors of the economy which are highly dependent on the free flow of trade.	Sanction specific commodities only.
AGGREGATIVE	Emphasises the factor of "dependence"; usually represented as the proportion of foreign trade to GDP	Halt all trade and investment
vs		
DISAGGREGATIVE	Focuses on the sectorial breakdown of the economy to identify the more vulnerable sectors. This is a relative concept since some aggregation is still necessary.	Apply selective sectoral sanctions.

include official encouragement of agricultural self-sufficiency and protection of industrial production. Within the parameters of this model, and ignoring the preceding arguments about sanctions, the intended effect of economic sanctions is perverse because the conditions generated by sanctions will defeat their objectives. Whether or not the objectives of sanctions are met,

there are bound to be some important economic adjustments as a result of the sanctions campaign. Yet, as Porter has pointed out, "Although economists have written extensively about universal economic sanctions, the precise mechanism is not always clear, and several quite different mechanisms can be discerned in the reviewed literature."[35]

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CHAPTER III

THE CASE OF SOUTH AFRICA

While the preceding chapter discussed the economic implications of sanctions in fairly general terms, this chapter outlines the salient features of a strategy of economic sanctions specifically aimed at South Africa as a potential target case.

As the decolonisation of Africa proceeded, the threat of economic sanctions on South Africa has been gathering momentum. The main forum for the pronouncement of this threat has been, and continues to be, the United Nations Organisation. T. Malan, for example, writes: "As early as 1952 several Third World and Communist countries in the General Assembly were calling for a trade embargo against South Africa - a move which has since developed into an over-whelming demand for extensive sanctions, especially since Sharpville." Additionally, "Since its inception on 25 May 1963, the Organisation of African Unity has left no stone unturned in efforts to exert political and economic pressure against South Africa and its main overseas trading partners."(1) The United Nations' initially phrased 'requests', 'urgings', and 'invitations' directed at South africa gradually made way for increasingly radical demands, amounting to what one observer termed "a crusade for the overthrow of the South African political system."[2]

The United Nations-sponsored International Conference on Sanctions Against South Africa held in Paris in May 1981 noted five aims for the recommendation of sanctions:

"(a) to force South Africa to abandon its racist policy of apartheid and to put an end to its illegal occupation of Namibia;

(b) to demonstrate, by action, the universal abhorrence of apartheid and solidarity with the legitimate aspirations and struggles of the people of South Africa and Namibia;

(c) to deny the benefits of international co-operation to the South African regime so as to oblige it and its supporters to heed world opinion, to abandon the policy of racist domination, and to seek a solution by consultation with the genuine leaders of the oppressed people;

(d) to undermine the ability of the South African regime to repress its people, commit acts of aggression against independent states and pose a threat to international peace and security;

(e) to remove economic support from apartheid so as to mitigate suffering in the course of the struggle of the people of South Africa and Namibia for freedom, and thereby promote as peaceful a transition as possible."[3]

The legal (as against political or ethical) rationale for the application of sanctions against South Africa is found under Chapter Seven of the UN Charter which posits three situations that may prompt collective action, namely a threat to peace, a breach of peace, or an act of aggression. Those who advocate sanctions have attempted to frame the South African situation in terms of each of these categories to persuade the UN Security Council to formulate such collective action. Those nations which have little or nothing to lose from the severance of South African economic connections, and most to gain politically, have generally been the most vociferous advocates of sanctions. However, this attitude has recently spread to even (as South Africans view them) the country's political and economic allies. This has given rise to a long and divisive debate in the 'West' over economic sanctions, and one which is likely to continue in the foreseeable future.

Many nations concerned with South Africa have periodically applied some form of restriction or sanction on economic intercourse. Most multinational companies are subject to either the Sullivan Code (of American origin) or the Code of Conduct (of European Economic Community origin), with regard to their modus operandi. South Africa has been subject to a voluntary arms embargo since 1963, and a mandatory arms embargo since 1977. Official trade credit, as in the case of the US Export-Import bank facilities, had been curtailed, as has the transfer of technology that could have military application. Many multinational corporations have curtailed new investment, and some banking groups have withdrawn their loans and other facilities to South Africa. However, despite these moves - and their effects remain difficult to evaluate - most countries economically involved with South Africa and their nationals have to date balked at introducing major or comprehensive sanctions.

Despite the reasonably well observed arms embargo, South Africa is not militarily incapacitated, and has a thriving indigenous arms industry. The oil embargo instituted by OPEC, at the request of the Organisation of African Unity, has resulted in little more than some inconvenience in the procurement of oil and its derivatives, and has boosted the development of indigenous 'synthetic' oil-from-coal production. The OAU had officially banned commercial transactions with South Africa, but most African states overlook this ban. The 'West' has shied away from a major sanctions campaign principally because of the costs involved, the ensuing disruption to the world economy, and doubts as to the efficiency of sanctions in general, and in particular in the South African context.

Those who advocate a boycott of trade with South Africa maintain that it would cause serious disruption and dislocation to her economy if it were effectively imposed, since she is highly dependent on a comparatively small number of foreign suppliers of finance, technology and capital goods. It is held that the impact on economic growth, employment, and productivity would be substantial. While others agree that South Africa's reliance on trade renders her vulnerable to damage, they also stress the ability of the South African economy to meet the challenge of sanctions, especially through import substitution. This has been highlighted by the development of the arms and oil-from-coal industries, though at the cost of at least some economic efficiency and an evidently growing core of inflation. However, given the creeping and selective nature of sanctions so far, the ability of the South African economy to adjust is commensurately enhanced. Opponents of sanctions also point out that given the likely loopholes in any sanctions program, the crucial consideration for South Africa's economy is not so much the availability of supplies, but rather the ability to pay for them. Furthermore, since most of South Africa's foreign exchange is obtained through exports of easily disguised and highly marketable products, she should not have a serious problem in paying for imports. Anti-sanctions commentators agree that sanctions would admittedly impose higher economic and non-economic costs in South Africa and that economic growth, employment and productivity would suffer, but they stress that these increased costs may be acceptable to the South African government in the maintenance of apartheid.

The controversy then focuses on the linkage between economic deprivation and the likely political and/or psychological effects of sanctions.[4] Advocates of sanctions claim that this linkage will result in political change as a result of reform or revolution. Opponents of sanctions disagree on the nature of this linkage. Some point out that cultural, social and ethnic factors specific to South Africa may unite the white community in the face of a common external threat.[5] Indeed, in the Rockefeller Foundation Report it is maintained that: "Sanctions would also probably strengthen the reactionary elements in South Africa and weaken the reformers, as well as dry up resources that could have been used to implement reforms. Whites who found the hardship brought by sanctions unacceptable, would probably leave the country, but the majority would stay and accept a reduced standard of living as the inevitable price of survival. The government would ensure that the white community was adequately cushioned against severe economic effects of sanctions. The black population would have to bear the brunt of the assault."[6]

This view is in accordance with that of Doxey, who in applying her framework for analysing the role of international sanctions on South Africa, concludes, "that the deterrent and coercive force of sanctions is weak in almost every count; non-legitimacy of the (international) system and its norms; low probability of enforcement, both as regards motivation and capability; serious but not intolerable impact of economic measures; very high values attached to norm-violation by the target regimes and their supporters."[7]

Problems associated with implementation and organisation provide opponents of economic sanctions with their strongest case. At present it is very unlikely that South Africa's main trading partners would agree to a multilateral embargo against her. The previously cited Rockerfeller Report has, for example, pointed out that "The British government has made it clear that the political and economic costs are far too severe. Without their co-operation, as even the supporters of boycott concede, the unilateral American embargo would have little more than a symbolic effect that would quickly dissipate as South Africa filled the gap by increasing its trade with the other industrial nations."[8]

Doxey, among others, has stressed that a necessary condition of effective sanctions woud be a physical blockade of the sanctionee.[9] The cost of a physical blockade of South Africa both by sea and air would be very considerable: a 1965 study estimated that "such a naval and air blockade would cost approximately $165 672 000 for a six month period."[10] Allowing for inflation and the increased volume of trade to and from South Africa it does not seem unreasonable to estimate that present day costs of such a physical blockade might be, say, ten times greater. Costs aside, it is unlikely that any such blockade will be implemented due to political and military factors.

Advocates of sanctions against South Africa often support the use of selective measures because of the problems of organising a comprehensive embargo. One such measure is the halting of oil supplies to South Africa. A variety of commentators, including Bailey and Rivers,[11] claim that an oil embargo would be feasible and effective: "An oil embargo, its supporters contend, is easier to implement than comprehensive trade sanctions because oil is a single product, and can be monitored from its points of origin outside South Africa. Oil is delivered by sea, making shipments susceptible to identification and confiscation. Deterrent action by naval forces can be taken as tankers are on their way to South Africa or on their way back."[12]

Opponents of the envisaged oil embargo point out that South Africa has already successfully circumvented two serious attempts to cut off her oil, the OPEC boycott in 1973 and the Iranian embargo imposed in 1979. (Prior to 1979 Iran supplied South Africa with ninety percent of her oil imports and ignored the OPEC ban). Moreover, oil has no national identity or accountability in free-trading world markets, and critics of an oil boycott contend that if South Africa has the foreign currency to continue paying top prices, short of a costly naval blockade, oil is likely to get through. South Africa's susceptibility to an oil embargo is meanwhile diminishing as stockpiles accumulate and domestic oil-from-coal production increases.

A further selective tool of economic sanctions that has been suggested is foreign investment. The issue of disinvestment has given rise to many exhaustive studies and much acrimonious debate.[13] Advocates of disinvestment claim that continued economic engagement illustrates a lack of concern about apartheid in those nations which export capital to South Africa. For example, the presence of branches, subsidiaries and multinational companies in South Africa, it is argued, provides moral and political support to the South African government, apart from such economic support as the payment of taxes and providing directly or indirectly foreign currency to finance South African imports, and thus aiding her economic growth. The presence of foreign capital is seen as a form of insurance for South Africa, sheltering it from the postulated adverse effects of international economic sanctions. Furthermore, it is argued that the flow of foreign investment has not improved conditions for black people in South Africa and the wage gap between racial groups has not significantly altered. Indeed, foreign investment is perforce held to be political since it directly benefits the economy and thus facilitates the maintenance of apartheid.

However, the issue of foreign investment is more complex than the above arguments imply. The Rockefeller investigation of black South African opinion conducted in 1977 concluded : "Our impression is that Blacks who reflect on foreign investment as an issue are now roughly divided between those favouring disinvestment and those who would like to see it remain in instances where it contributes to black aspirations directly and in the near term."[14]

The disinvestment argument is countered on three levels. Firstly, some oppose disinvestment on purely pragmatic grounds since it is not feasible, given the legal authority to prevent repatriation of capital. Secondly, others have yet to be convinced of the causal connection between disinvestment and political or social change. Thirdly, many people reject disinvestment outright, on the basis that foreign investment is beneficial to South African blacks, and thus withdrawal of capital would harm them more than the whites. Investment and economic growth, it is argued, are bound to open up new opportunities for black people, and in time bring about a more equal distribution of income and also change the apartheid system. The Study Commission on U.S. Policy Toward South and Southern Africa (Rockerfeller Report) recommended against disinvestment for three main reasons. Firstly, there appeared little immediate likelihood of a concerted multilateral movement to disinvest. Secondly, there was no guarantee that any changes brought about by disinvestment would be desirable from the point of view of black people and the United States. Thirdly, the impression gained by the commissioners was that those black people supporting disinvestment only did so because they believed US companies were insufficiently committed to change.[15]

Barber and Spicer have suggested that there exist five broad policy alternatives for the West in respect of South Africa: (i) intensified economic development; (ii) communication; (iii) disengagement; (iv) graduated pressure; and (v) comprehensive sanctions.[16] The first option represents the antithesis of sanctions. The ultimate political objective is, however, said to be the same as that claimed by the advocates of sanctions, namely, change in or breakdown of apartheid; only it is envisaged that this can best be achieved by rapid economic expansion. This economic expansion would rest at least partly on the sponsorship of the West, which would in turn gain more influence to control events in South africa. In this "liberal" argument (in the classical sense), the principle of economic self-interest tends to undermine the traditional system of racial segregation.[17]

The second option above, that of communication, represents a more balanced "carrot and stick" approach to apartheid. It stresses the role of "positive sanctions", which offer actual or promised rewards, as well as the role of "negative sanctions", which offer actual or threatened punishment.[18] The communication option is based on the idea that greater political change can be achieved in South Africa if she is coaxed along the road to reform than if she is forced into a polarisation of opinion.[19] It emphasises marginal and evolutionary change rather than radical immediate change. "In terms of political change this approach implies that the West should neither lay down a precise blueprint, nor join the chorus calling for 'one man, one vote' as the panacea for all South Africa's problems. The Western states might, however, give quiet encouragement to the exploraton of constitutional arrangements for sharing and distributing power."[20]

The third option, that of disengagement, is based on the assumption that it is inimical to the interests of the West to become embroiled in the complex South African situation. South Africans must be left alone to settle their own issues, since Western interference could destabilise a large number of international relations, particularly since the political climate affecting South Africa is so unpredictable. Although this option of reduced contact with South Africa is increasingly discussed, it is not always apparent what precisely is to be the extent of the disengagement. Presumably social, political and economic intercourse will be limited to "essential ties", for example, protecting supplies of raw materials.

A fourth option, graduated pressure for reform, envisages that South Africans can be persuaded to instigate reform by Western nations, who are unable to ignore or distance themselves from South Africa. This approach assumes that the present constitutional arrangements in South Africa will undergo fundamental change, and in order to limit socio-political instability and violence, concerted pressure must be exerted on South Africa to bring about evolutionary change. Advocates of this option visualise the extension of the 1977 United Nations mandatory arms embargo by a graduated set of measures short of comprehensive economic sanctions,[21] including: (i) diplomatic options; (ii) military options; (iii) options with respect to refugees and the non-military support of guerilla movements and adjacent African states; (iv) "mild" and (v) "tough" economic measures.[22]

The last option is that of comprehensive sanctions, which Barber and Spicer maintain is based on the assumption that apartheid will be short-lived, and the best interests of the West will be served by supporting the "revolutionary forces."[23] The imposition of comprehensive, mandatory sanctions by the West would supposedly weaken the short term resistance of the South African government and illustrate the West's solidarity with the cause of Black Africa. In the medium and long term, when the revolutionary forces are thought to be in power, they would favour those who supported their rise to power. Such a view is articulated by the United Nations Centre Against Apartheid, the Anti-Apartheid Movement and a variety of neo-Marxist commentators.[24] In particular, the neo-Marxists claim that continued economic growth and industrialisation, in the existing South African context, will not lead to a breakdown of apartheid, but indeed reinforce it. Although advocating sanctions, such organisations and individuals are exceedingly vague about the economic linkages with the surmised "revolution".

The choice of different sanction strategies (including the option not to apply sanctions) with regard to South Africa as a target state depends on a variety of considerations, ranging from economic self-interest to ideological commitment. The choice of specific measures of sanctioning would also seem to be governed in a high degree by individual motivation in many cases. What has not been considered in any detail up to this stage, is the potential impact of sanctions on individual forms of economic activity in South Africa; this will now be investigated in the following chapters.

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CHAPTER IV

TRADE AND SANCTIONS (1)

INTRODUCTION

At the conclusion of Chapter I it was pointed out that the end of sanctions is likely to be of a political nature. This would certainly seem to apply to the South African case, where the purported aim of sanctions is to abolish the policy of Apartheid. The means of a sanctions policy are in turn of an economic nature. Given the international character of the exercise, the institution through which sanctions conceived abroad are to be transmitted to the South African economy is essentially the country's Balance of Payments. Accordingly, Chapters IV and V discuss target areas relevant to economic sanctions within that of the capital account of South Africa'a Balance of Payments. In this sense Chapter 5 is merely a continuation of Chapter 4; the distinction is simply one of convenience.

GENERAL TRADE PATTERN

The distinction between trade and investment is contained both within the traditional National Income Accounting Equation

$$Y = C+I+G+(X-M)$$

and within the record for a country's international transactions, viz., the balance of payments, where (X-M) refers to the balance on current account. Although some forms of functional relationships do exist between trade and investment, this interaction does not concern us directly here.

Foreign trade is vital to South Africa. It is, for example, stated in the introduction of the Reynders' Report: "South Africa always has been and still is heavily dependent on foreign trade for its economic development and growth."[1] In 1981 South Africa ranked fourteenth in the world in terms of export value and twentieth in the world in terms of import value.[2] The proportion of foreign trade (X+M) to South Arica's Gross Domestic Product has fluctuated over time, but consistently remained at a high level; for example, in 1960 it was 64,7 percent; in 1970 55,4 percent; and in 1980 73,7 percent (see Table 3). Fluctuations in this figure are primarily due to fluctuations in domestic economic activity, with exports being largely exogenously determined. It has been reported that the average comparable ratio for Europe is 57 percent, for Latin America 57 percent, for Asia 47 percent, while in some African countries it is as high as 102 percent, though no dates or sources are given.[4]

As the South African economy is relatively open, it exhibits a close relationship and interaction between foreign trade and economic growth. It is therefore useful for the purposes of the present discussion to analyse the pattern of foreign trade in relation to the phases of South African economic development. The Reynders' Report identifies three commonly distinguished phases: (i) Agricultural phase, 1652-1868; (ii) Agricultural-mining phase, 1868 - 1938/39; and (iii) Agricultural-mining-manufacturing phase,1939 to the present time[5]. The first phase was characterised by self-sufficiency, with economic activity dominated by agriculture. The second phase saw the discovery of diamonds and major gold deposits which led to the rapid development of the mining sector and its subsequent dominance over the

TABLE 3[(3)]

SOUTH AFRICAN FOREIGN TRADE AND GDP AT FACTOR COST: 1975-1981
(R Million at current prices)

YEAR	IMPORTS	EXPORTS INCL.GOLD	GDP	IMPORTS % GDP	EXPORTS % GDP	TRADE % GDP
1975	9 544	7 593	25 846	36,9	29,4	66,3
1976	10 449	8 732	29 108	36,1	30,0	66,1
1977	10 310	10 683	31 964	32,3	33,4	65,7
1978	12 029	13 262	37 029	32,5	35,8	68,3
1979	14 343	17 150	44 176	32,5	38,8	71,3
1980	19 963	22 668	57 817	34,5	39,2	71,3
1981	25 215	21 144	65 531	38,5	32,3	70,8

economy. In the third phase the manufacturing sector expanded alongside the mining and agricultural sectors until it became the most important single contributor to the GDP. The amount of foreign trade during the first phase was not significant but the discovery of minerals which underpinned the second phase of development entailed an important increase in foreign trade. During this time exports were essentially limited to raw materials of agricultural origin , diamonds and gold whilst imports constituted mainly consumer goods and capital goods. The last phase has not seen a decrease in the overall ratio of foreign trade to GDP, although the process of industrialisation has led to corresponding changes in the underlying pattern of foreign trade, particularly in respect of imports.

Thus total imports in 1910 were 28 percent of national income[6], in 1970 23 percent, and in 1980 35 percent of the corresponding figure. (See table 3). The pattern of imports has been historically determined largely by the protective tariff structure, and consequent import replacement, which has, in the third phase of economic development, been the main "engine of growth" in the economy. Domestic industry presently provides the vast majority of consumer goods, and whereas the mining sector was previously dependent on imports of capital goods this relationship is now reduced. The major obstacles at present in reducing dependence on imports (mainly in the area of capital and intermediate goods) are the the limited opportunities remaining for viable import-replacement, current GATT regulations, the limited domestic market and constraints posed by limited foreign currency reserves.

South Africa's export mix is liable to change due to varying world demand and prices of raw materials, and she has in recent times exhibited a greater dependence on the primary sectors. Minerals accounted for 67 percent of South Africa's total export earnings in 1980 as against 57 percent in 1979. Gold on its own contributed more than 50 percent to merchandise export earnings in 1980, the first time since 1945[7]. Even in 1980, which was a particularly favourable year for mineral exports, agricultural products still contributed some 9 percent towards South Africa's export earnings. South Africa's export performance may usefully be compared with others in the so-called semi-industrialised group of countries - for example, Argentina, Australia, Brazil, Finland, Hong Kong, Ireland, Israel, South Korea, Spain and Taiwan - where on average, exports of raw materials and food constitute only about 42 percent of total exports, while exports of manufactured goods account for some 54 percent, as compared to approximately 20 percent in South Africa[8].

Table 4 presents the value and composition of South Africa's foreign trade in

1980. The various commodity groups are classified according to the Brussels Tariff Nomenclature, the convention employed by the Department of Customs and Excise. As from 1980, these figures include gold coin and bullion under "unclassified" exports, while petroleum products and military goods appear under "unclassified" imports (Prior to 1980, these items were excluded from these trade figures). Services are not included in the statistics.

According to Table 4, (group 16) Machinery and (group 17) Vehicles were the two most significant South African imports in 1980, which is also in agreement with historical trading patterns. As mentioned above, the "unclassified" group (group 21) includes petroleum imports, which should be comparatively large: before the separate publication of petroleum statistics was discontinued this item amounted to some 6 percent of South Africa's total imports at a time when the oil price was actually falling. Other prominent import products are chemicals, base metals, textiles and plastics.

Export earnings were mainly derived from (group 14) Gems and Jewellery, which includes precious and semi-precious stones and articles of precious metals, (group 15) Base metals and metal products, and (group 5) Mineral products, while gold is included in the "unclassified" group (group 21). This order of magnitude, of course, stresses the importance of the mining sector in South Africa's export trade. Agricultural products (groups 1 to 4) together contributed some 9 percent towards merchandise exports in 1980; traditionally the corresponding figure has been significantly higher.

The economic consequences of sanctions on South Africa's export trade are obviously a matter of conjecture. Arnt Spandau is one of the few economists who has produced certain estimates of the possible effects of hypothetical 20 percent and 50 percent cuts in the total value of South Africa's exports on employment and economic growth. In brief, under the former assumption, unemployment was expected to rise (from a stated level of 14,6 percent) to the level of 19 percent, whilst economic growth was expected to decline by 5 percent annually; under the latter assumption, the corresponding figures were 23 percent and 12,5 percent, respectively. These estimates were based on data for the year 1976. However, apart from the doubtful suitability of the input-out-put model used for these calculations, one may have reservations about some of the basic data employed in the exercise; for example, the size of the South African labour force in 1976 was taken to be 10 million persons, a figure not confirmed by other statistical sources.[10]

TABLE 4[9]

SOUTH AFRICAN IMPORTS AND EXPORTS (BY COMMODITY GROUPS): 1980

COMMODITY GROUPS	EXPORTS		IMPORTS	
	R million	%	R million	%
1. Animals & animal products	185,3	0,9	44,0	0,3
2. Vegetable products	88,8	4,1	198,7	1,4
3. Animal, vegetable fats & oils	36,9	0,2	62,8	0,4
4. Prepared foodstuffs	720,4	3,6	159,3	1,1
5. Mineral products	1 552,8	7,8	242,2	1,7
6. Chemicals & chemical products	391,0	2,0	1 026,1	7,1
7. Plastics, resins & rubber products	75,7	0,4	477,4	3,3
8. Hides, skins and leather	143,4	0,7	41,7	0,3
9. Wood & wood products	53,7	0,3	95,1	0,7
10. Pulp, paper and paper board	179,8	0,9	321,9	2,2
11. Textiles	358,9	1,8	535,2	3,7
12. Footwear & millinery	16,9	0,1	52,3	0,4
13. Non-metallic mineral products	55,4	0,3	119,8	0,8
14. Gems & Jewellery	2 846,0	14,3	60,5	0,4
15. Base metals and metal products	1 580,1	7,9	698,6	4,9
16. Machinery	263,4	1,3	3 528,7	24,6
17. Vehicles & transport equipment	132,0	0,7	1 846,5	12,8
18. Optical & other instruments	24,3	0,1	468,7	3,3
19. Miscellaneous manufactured products	27,1	0,1	101,7	0,7
20. Works of art, collectors'pieces & antiques	6,6	-	16,3	0,1
21. Unclassified	10 417,8	52,4	4 265,0	29,7
	19 879,6	100,0	14 362,7	100,0%

TRADING PARTNERS

The geographic and regional pattern of South Africa's disclosed trade relations is shown in Table 5 below. In recent years South Africa has become progressively more reliant for imports on six main trading partners; the United Kingdom, West Germany, the United States, Japan, Italy and France. In 1972 they supplied 68 percent of disclosed merchandise imports, in 1975 this proportion rose to 75 percent and even in 1980, when the gold price was historically at a record level, this figure was 54,6 percent. The same six nations took 29,3 percent of disclosed South African exports in 1980, however, the destination pattern of South African exports has undergone significant change in recent years. In 1970 Britain was the destination of 30,2 percent of South African exports[12] However, by 1980 this pattern was quite different. According to Table 5 Britain took only 7,0 percent of disclosed South African exports in 1980, and had been eclipsed by the United States as the main export market. The main feature of the 1980 geographical export pattern, then, is its relative diversification with no one market predominating.

In 1980 the most important export markets for disclosed trade were, in rank order, the United States, the United Kingdom, Switzerland and Japan.

Table 6 below indicates the general nature of the trade mix between South Africa and her major trading partners. The most significant South African imports in 1980 were machinery, transport equipment, chemical products, and plastic and rubber products. These four product groups together constituted 47,8 percent of total imports in 1980 (See Table 4). In the same year the six main trading partners indicated contributed 84,3 percent to machinery imports, 95,3 percent to transport equipment imports, 72,4 percent to chemical product imports and 74,5 percent to plastic and rubber imports. These countries together thus represent the source of 40,6 percent of total South African imports in 1980, taking into consideration only the above four product groups. This implies that South Africa's import trade is significantly concentrated in respect of sources and products.

It is widely acknowledged that there is in South Africa a functional relationship between imports of capital and intermediate goods, and economic growth. Table 7 helps to illustrate this relationship and shows that growth may therefore be vulnerable to import sanctions.

TABLE 5(11)

SOUTH AFRICAN GEOGRAPHIC FOREIGN TRADE PATTERN: 1980 (in R million)					
TRADING PARTNER	IMPORTS	% OF TOTAL	EXPORTS	% OF TOTAL	BALANCE OF TRADE
AFRICA	228,1	1,6	1 098,0	5,5	869,9
EUROPE	5 711,9	39,8	5 151,4	26,0	-560,5
France	541,8	3,8	407,1	2,0	-134,7
West Germany	1 860,2	13,0	799,8	4,0	-1 060,4
Great Britain	1 738,7	12,1	1 384,5	7,0	-354,2
Switzerland	238,9	1,7	1 239,9	6,3	1 001,0
Italy	439,4	3,1	382,3	1,9	-57,1
ASIA	1 807,5	12,6	1 992,2	10,1	184,7
Japan	1 290,7	9,0	1 205,8	6,1	-84,9
Hong Kong	101,3	0,7	223,8	1,1	122,5
Taiwan	109,5	0,7	167,1	0,8	57,6
AMERICA	2 223,1	15,5	2 146,8	10,8	-76,3
USA	1 952,1	13,6	1 648,0	8,3	-304,1
Canada	138,8	1,0	205,2	1,0	66,4
Brazil	77,5	0,5	133,0	0,7	55,5
AUSTRALASIA & OCEANIA	215,5	1,5	189,8	1,0	-25,7
TOTAL FOR 1980	14 355,8	-	19 798,8	-	5 443,0

TABLE 6(13)

MAJOR IMPORTS FROM MAJOR TRADING PARTNERS IN 1980								
COUNTRY	MACHINERY		TRANSPORT EQUIPMENT		CHEMICAL PRODUCTS		PLASTICS AND RUBBER	
	% of Total	R million	% of Total	R million	% of Total	R million	% of Total	R million
FRANCE	8,3	292,4	3,4	62,8	3,8	39,2	4,7	22,6
ITALY	4,9	174,1	5,1	93,5	2,9	30,2	3,8	18,2
JAPAN	11,2	396,3	24,3	449,8	4,0	40,9	9,1	43,3
UK	18,6	657,9	15,0	277,6	20,8	213,9	20,7	98,9
USA	19,6	690,5	19,9	367,4	23,0	236,0	19,2	91,7
GERMANY	21,6	762,2	27,5	507,6	17,8	182,3	16,9	80,8
REST OF THE WORLD	15,7	555,3	4,7	87,8	27,6	283,6	25,5	121,9
TOTAL	100,0%	3 528,7	100,0%	1 846,5	100,0%	1 026,1	100,0%	477,4

TABLE 7[14]

COMPARISON BETWEEN RATE OF ECONOMIC GROWTH AND GROWTH OF IMPORTS IN SELECTED CATEGORIES: 1975-80

YEAR	RATE OF ECONOMIC GROWTH (PERCENTAGE)	RATE OF GROWTH % (at current prices)				
		MACHINERY	TRANSPORT EQUIPMENT	CHEMICALS	PLASTICS	ALL IMPORTS
1975	1,6	-	-	-	-	-
1976	1,4	6,5	14,0	8,1	14,4	5,7
1977	0,0	-15,5	-19,5	3,8	-11,6	-13,1
1978	2,2	28,2	35,5	28,7	21,2	22,2
1979	3,8	5,4	0,0	22,5	37,7	12,1
1980	7,9	60,0	36,8	28,4	30,5	104,8

As far as exports from South Africa are concerned, the major four revenue earning categories in 1980 were either minerals or mineral products. Together categories 5, 14, 15 and 21 (see Table 4) accounted for over 80 percent of the total value of merchandise exports in 1980. The destination of gold exports is not revealed and is often unknown, but this is of little practical relevance since it is highly marketable. The Monthly Abstract of Trade Statistics merely records gold sales under the unclassified section. However, the breakdown for the three other major export categories is given in Table 8.

TABLE 8[15]

MAJOR EXPORTS TO MAJOR TRADING PARTNERS 1980

COUNTRY	GEMS & JEWELLERY		BASE METALS & METAL PRODUCTS		MINERAL PRODUCTS	
	% of Total	R million	% of Total	R million	% of Total	R million
SWITZERLAND	42,0	1 196,7	1,0	14,3	0,1	1,9
ITALY	-	0,2	7,3	115,5	8,6	134,0
JAPAN	1,0	26,5	9,2	145,7	20,0	311,1
UK	16,5	470,6	4,8	76,0	2,1	33,4
USA	24,5	697,5	22,4	354,8	6,0	92,7
GERMANY	5,8	164,5	8,1	128,0	11,2	174,3
FRANCE	-	0,2	0,9	13,9	17,7	275,1
REST OF THE WORLD	10,2	289,8	46,3	371,9	34,1	530,3
TOTAL	100,0%	2 846,0	100,0%	1 580,1	100,0%	1 552,8

MINERAL EXPORTS AND POTENTIAL COSTS TO SANCTIONERS

In weighing up the costs and benefits of imposing trade sanctions, one of the factors that these industrially developed countries have to take into account is South Africa's effective control over huge mineral reserves: the country has often been described as the 'treasure chest' of the world[16].

The seven countries identified in Table 8 take the vast majority of these major indicated South African exports, whilst the three product groups constitute 39,2 percent of the value of total South African exports in 1980 (excluding category 21).

Thus South African foreign trade is highly concentrated in the hands of a relatively small group of industrially developed countries, namely, West Germany, the United States, Britain, Japan, France, Italy and Switzerland. Potentially effective economic sanctions on South African trade would thus be contingent on the policies pursued by these countries.

Apart from gold, the platinum group metals, uranium and precious stones, 46 different minerals are currently mined in South Africa.[17] The President of the South African Chamber of Mines in 1976, is quoted as saying: "There seems little doubt that South Africa is entrenching itself as one of the principal sources of supply of minerals in the Free World, and in the case of certain important minerals, the only substantial alternative to countries of the Eastern Bloc".[18] Over the past few years there has been a growing awareness of the problems involved in the world's future mineral requirements. Alarmist reports about impending shortages of natural resources have been lent credence by the oil crisis,[19] whilst the nature of industrialisation in the West is, to a greater or lesser extent, bound to continue to depend on imported sources of raw materials. The essential details of South Africa's relevant mineral resources are given in Table 9.

It can be seen in Table 9 that South Africa supplies a large proportion of the West's mineral resources, the demand for which is often related to strategic considerations, either in a broad or a narrow sense of the term, for example, the use of platinum metals for fuel emission control, and the use of chrome in the production of industrial machinery and military goods. The potential problems for the West in avoiding South Africa as a source of supply may therefore be considerable, albeit not insurmountable; while sanctions may, therefore, be feasible, they would also be costly.

TABLE 9[20]

SOUTH AFRICA'S ROLE IN WORLD MINERAL SUPPLY, 1976

MINERAL	SOUTH AFRICA'S SUPPLY AS RANK AND % OF WESTERN WORLD SUPPLY		SOUTH AFRICA'S MINERAL RESERVES IN RELATION TO WESTERN WORLD RESERVES	
	RANK	PERCENT	VOLUME(Metric tons)	PERCENT
PLATINUM GROUP	1	86	30 646 (Metal 600m deep)	89
GOLD (metal)	1	75	16 500	64
VANADIUM	1	58	7 760 000 (Metal 30m deep)	90
CHROME ORE	1	41	3 096 830 000 (300m deep)	84
MANGANESE ORE	1	40	3 000 000 000	77
ANTIMONY (metal)	1	33	300 000	12
DIAMONDS (carats)	2	23	51 000 000	7
ASBESTOS	2	18	8 500 000	8
URANIUM (U_3O_8)	3	13	276 000	14
COAL	5	6	32 340 000 000 (300m deep)	4

There is, however, a danger, particularly amongst indigenous South African commentators, in over-estimating the value of South Africa, in mineral resource and strategic terms, to Western industrial nations. While it is true that these factors are important and strong bargaining counters in economic and political terms, they are only a facet of a very complex political situation.

Depending on one's political inclinations, different interpretation can be put on such statistics; moreover, different figures are sometimes 'conjured up' by misrepresentation and half-truths, in order to 'prove' a particular point. For example, Table 10 below is drawn from figures quoted by a representative of a multi-national corporation with vested interests in South Africa, and it gives a misleading impression of European Economic Community (EEC) dependence on South African minerals, mainly because it over-simplifies a complex issue. Additionally, statistics pertaining to a particular year should not necessarily be projected into the future without qualification. This trading relationship between South Africa and the West, and the associated costs of ending it have thus sometimes given rise to some dubious claims and counter-claims, which often disregard the essentially dynamic nature of trade. A useful, if somewhat acrimonious, study of the costs of sanctions to some potential sanctioners has been published by B Rogers and B Bolton[22]. They focus on trade relations between Britain and South Africa since this link has traditionally been the most significant in economic and political terms: the reasoning being that Britain would incur the heaviest costs amongst the potentially effective sanctioners, and if these costs were relatively light, this would apply a fortiori to the lesser trading partners. The validity of this reasoning is, however, impaired by the redistribution, at least in relative terms, of South Africa's trade among its major trading partners.

TABLE 10[(21)]

SOUTH AFRICAN MINERAL EXPORTS TO THE EEC 1977

MINERAL	% OF SA EXPORTS IN TOTAL EEC IMPORTS
MANGANESE ORE	52
MANGANESE METAL	78
FERRO-MANGANESE	29
ANTIMONY ORE	9
CHROMIUM ORE	28
FERRO-CHROME	46
PLATINUM AND ALLOYS UNWROUGHT	40
PLATINUM GROUP AND ALLOYS UNWROUGHT	18
VANADIUM	42

The issue of costs to sanctioners was raised at a comparatively early stage by Spandau[23] and the United Kingdom-South Africa Trade Association

(UKSATA)[24]. Such costs are often quoted in terms of lost employment, and both Spandau and UKSATA quote a figure of 70 000 lost jobs in Britain, though Rogers and Bolton have cast grave doubt on the validity of this figure: "As regards the jobs involved in exports to South Africa, a number of alleged 'estimates' turn out on examination to be based on little or no analysis, at least any that might be subject to independent scrutiny. The British Foreign Office, for example, is frequently mentioned as the source of such estimates, but we have been informed by them that no such figures are being published due to the uncertainties about alternative markets and other circumstances at the time. A pamphlet produced by UKSATA and a paper by Dr Arnt Spandau in South Africa itself, both put forward confident estimates of job losses, but it turns out that each is (inaccurately) citing the other, and there is no trace of any detailed calculations to support the figures produced."[25] Spandau, quoting "Newsweek" as the source, also puts forward a figure of 160 000 Britons out of work if Britain were to withdraw half of her capital in South Africa.[26] UKSATA also posits a figure of 250 000 lost jobs if South African raw materials are denied to British industry, but gives no meaningful indication of how this figure was derived.[27] The conclusions of Rogers and Bolton in respect of costs to sanctioners are generally supported by Charles Elliot.[28] Depending on the severity and completeness of sanctions Rogers and Bolton estimate the number of jobs "at risk" in Britain to be between 13 000 and 14 000. Elliot estimates that "the employment loss was thought to be 26 000 under extreme assumptions, and 2 500 under more realistic assumptions"[29]. However, both studies emphasise that such quantification is a 'paper exercise', which cannot capture the essentially dynamic nature of trade. They conclude that exaggeration is made of the potential costs to Britain and sanctioners in general, though obviously it is not a costless exercise.

As far as costs to the EEC (excluding Britain) are concerned, these are claimed to be in approximate proportion to the volume of trade involved. Rogers and Bolton include a chapter generally discussing the costs in terms of lost jobs to the EEC countries on a national basis, but they quote only one figure for the number of jobs "at risk", that for Holland, which seems ridiculously low at 389[30]. They conclude that South African reliance on the EEC as a source of imports far exceeds the EEC's dependence on South Africa as a market for exports.

Below, in Table 11, are some other figures for the potential number of jobs claimed to be at risk, which have appeared in the anti-sanctions literature; not because they are likely to be accurate, well-researched or independent of vested interests, but rather because they make "good press" on some definition.

TABLE 11

SOME CLAIMED COSTS TO POTENTIAL SANCTIONERS

COUNTRY	COSTS IN TERMS OF UNEMPLOYMENT
GERMANY	80 000 - 85 000[31]
GERMANY	70 000 - 200 000[32]
GERMANY	7 000 000 (sic) [33]
SWEDEN	1 100[34]
EEC	250 000[35]

Estimating costs in terms of lost work places is, however, only one indicator of the potential costs to sanctioners. Although most commentators focus on employment, which obviously has great social implications, ensuing price rises must also be taken into consideration. Increases in prices have most significance for those industries abroad which are dependent to some degree on South African raw materials. Gold aside, this applies in the main to platinum group minerals, manganese, chrome and vanadium. The cessation of South African exports of these minerals would obviously entail both price rises and some dislocation of industry. However, Elliot comments: "The short run effect would be certainly inconvenient, possibly serious in a very small number of highly specialist uses, but in general substitutability as between uses and as between minerals, combined with the small proportion of costs directly attributable to raw material prices, suggests that even in the short run the cessation of South African supply would be undramatic"[36]. This conclusion is at odds, however, with Rogers and Bolton's thesis that the EEC is a victim of an "enforced dependence" forced on them by multinational companies, because this argument tacitly admits that at present the EEC is "dependent" on South African trade. This obviously also reflects a circularity in the commentary of Rogers and Bolton, who sometimes appear confused. For example, they try to argue that a high extraction rate and the relatively low quality of some South African minerals are two reasons for the EEC importing them[37], although the issues are unconnected.

The somewhat hysterical attack of Rogers and Bolton on multinational companies illustrates a preoccupation of many commentators with politics rather than economics, and a concomitant relative lack of understanding of the nature of trade. Table 12, which is taken from the book by Rogers and Bolton, and for which they give no date, shows that the EEC countries generally import South African minerals to a greater than proportionate extent of the South African share of corresponding world output, the situation which Rogers and Bolton term "enforced dependence". However, the existing arrangement whereby multinational companies operating from the EEC show a comparative preference for South African raw materials, reflects a convenient rather than an immutable state of affairs.

Those countries which have traditionally purchased South African minerals have already taken some pre-emptive action to reduce any impact of sanctions by stockpiling[38]. No real diversification of source of supply is being undertaken yet, mainly, it is said, because this trade is controlled by multinationals who have little present incentive to seek alternative suppliers market for South African Gems and Jewellery, and has become an important buyer of minerals. However, in the event of sanctions, increased political pressure may lead these companies to find other suppliers, but either unilateral or multilateral action by South Africa's major trading partners still appears a highly unlikely prospect at present. The effect of multilateral sanctions, say, by the EEC could of course be enormous, and given the significant worldwide links of the multinational companies, it should be possible for them to locate alternative supplies of the boycotted products or to find usable substitutes for them. Rogers and Bolton suggest that in the event of multilateral action a common policy on sanctions is likely to emerge in the EEC in respect of such matters as organising and servicing of stockpiles, short term redistribution of the scarce commodities between different users, and the development of new sources of supply in the longer term.

So far no reference has been made to South African trade links with Japan or the United States. Unlike Britain and the other EEC countries, the prominence of South Arica's trade links with the United States and Japan is of more recent origin, and on which there does not exist a comparably wide literature at present. In 1980 the US market for South African exports of Base Metals

TABLE 12[39]

SOUTH AFRICA'S CONTRIBUTION TO WORLD PRODUCTION AND EUROPEAN DEPENDENCE ON SOUTH AFRICA AS A SOURCE OF SELECTED MINERAL PRODUCTS

PRODUCT	% WORLD PRODUCT-ION IN SA	EEC TOTAL	FDR	UK	FRANCE	HOLLAND	ITALY	BELGIUM LUXEM-BURG	EIRE
GOLD	60	48	33	51			66		
DIAMONDS	17			68					
PLATINUM GROUP	47	30		90					
SILVER	1	1							
ALUMINIUM SILICATES	30		32	94					
GRANITE	n.a.				56		28		
ASBESTOS	10	15							
FLUORSPAR	5	24							
VERMICULITE	40	17		30			30		
COAL	2	19	22		18	18		19	
IRON	2	4	7	9	4		5		
MANGANESE	23	38	71	59	25		62		
URANIUM	12			50					
ZINC	8		11						
COPPER	3	5	12	8					
TIN	2	8,5	25	4		42			
CHROME	26	49	60	63	30	99	30		100
SILICA	-		14	10		64	31		
FERROCHROME	12,5	** 44	62		30			39	
(direct **)		* 26	44		65	15		26	
(indirect *)									
ANTIMONY	22		23		14				
ZIRCONIUM	n.a.		4						
VANADIUM	47					78		74	
NICKEL	3		15		15	43	15		
LEAD	1	18	6				12		
TITANIUM	5								

and Metal Products was nearly three times as large as the next biggest market, namely Japan (see Table 8). Additionally, she was the second largest export of other South African exports too. If the United States were to act in concert with the EEC on any future sanctions programme, then the outlook for South African exports is gloomy indeed. Broadly, similar considerations with regard to sources of supply apply to both the USA and EEC, although the former may be regarded as less "dependent" on South African commodities.

In 1980, Japan was the largest market for South African mineral exports, taking 20 percent of the total (see Table 8), and was overall the fourth largest trading partner of South Africa in terms of both exports and imports. Although it would appear at first that Japan is rather vulnerable to a boycott of mineral supplies from South Africa, this impression must be qualified. The main constituents of Japan's mineral imports from South Africa are coal, iron ore and chrome. It certainly cannot be maintained that there exists a seller's market in any of these products, and it should therefore not present an insurmountable problem to Japan to secure alternative sources of such mineral supply. South Africa, on the other hand, would be hard pressed to find a comparable export market if Japan stopped importing South African products.

To summarise the main argument of this chapter, an examination of the effects of halting exports to South Africa indicates that the consequences of this market loss need not cause economic disruption which could not be adjusted in the long run by the potential sanctioners. Adjustment to halting imports, especially of minerals, from South Africa would be more difficult, but given precautionary action and multilateral co-operation it is likely that the resulting inconvenience would be of a short term nature in this case too. It seems naive to believe that South Africa's trading partners are irrevocably dependent upon her minerals for strategic reasons, whilst much of the pro-sanctions literature deals with the physical availability of minerals and other products that South Africa exports, and tends to underestimate the economic consideration of cost and the practical consideration of a reliable source of supply, ie the reasons why trade with South Africa has reached its present proportion. From South Africa's point of view the loss of imports may be softened by further import substitution, although the scope for this is limited because of the narrow domestic market, especially for capital goods. The loss of exports may be more serious, as no such possible compensating alternative appears viable; for example, the domestic market would be unable to absorb the quantity of presently exported minerals, and stockpiling of the resulting surplus would only be a short term solution. Given the vertical and horizontal economic linkages of the export-oriented sectors, an effective boycott of South African exports could have a significant impact on the economy. This and related issues are, however, further investigated in the following and subsequent chapters.

N O T E S

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35. Study Group Series, op. cit. p.16.
36. C Elliot, op. cit. p.21.
37. B Rogers and R Bolton, op. cit. p.17.
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39. B Rogers and R Bolton, op. cit. p.18.

CHAPTER V

TRADE AND SANCTIONS (2)

AGRICULTURE

It appeared from the previous chapter (Table 4) that the agricultural sector contributed some 9 percent towards the value of South Africa's total merchandise exports (including gold) in 1980. In view of the generally high mineral prices which prevailed in that year, this figure tends to understate the relative (albeit declining) contribution of agricultural exports to South Africa's foreign trade in the past. During 1975-80, for example, agricultural products represented 14 percent, on average, of South Africa's total exports, as defined above.

The agricultural sector in South Africa consists of commercial agriculture and subsistence farming. Essentially, the former is located in those areas farmed and owned by white South Africans, and the latter in those areas occupied by black South Africans. (Some subsistence agriculture is also pursued by black people living on white-owned farms.) The aggregate land area of the commercial sector consists of 89 million hectares, and the subsistence sector covers 15 million hectares.

Commercial agriculture is responsible for over 90 percent of total farming output, and approximately the same percentage of produce from this sub-sector is marketed. In the subsistence sector only about 15 percent of output is marketed. The contribution of agriculture, forestry and fishing to Gross Domestic Product in South Africa is given below in Table 13.

The average contribution of the agricultural sector to GDP for the years 1975-1981 was 7,4 percent, as compared with 16,7 percent for mining and 23,3 percent for manufacturing. In conformity with "Engel's Law" this contribution is declining,as the economy becomes more sophisticated and moves away from primary economic activity in relative terms. However, in relation to employment, commercial agriculture has traditionally been, and continues to be, the leading employer of labour, accounting for 30,6 percent of all employees in 1970 compared with 12,6 percent for ;manufacturing, and 8,4 percent for the mining sector[2].

TABLE 13(1)

THE CONTRIBUTION OF AGRICULTURE, FORESTRY AND FISHING TO GDP: 1975-81
(R million at current prices)

	1975	1976	1977	1978	1979	1980	1981
AGRICULTURE, FORESTRY AND FISHING	2 192	2 275	2 578	2 792	2 974	4 051	4 921
GROSS DOMESTIC PRODUCT AT FACTOR COST	25 846	29 014	32 167	36 970	44 179	58 514	66 071
% CONTRIBUTION	8,2	7,8	8,0	7,6	6,7	6,9	7,4

In 1980/81, the gross value of agricultural production was R6 642,1 million. Of this R3 159,8 million (48 percent) originated in field crops, R2 464,2 million (37 percent) in livestock products, and R1 018,1 million (15 percent) in horticultural products. South Africa also has one of the biggest fishing industries in the world, and certainly the biggest in Africa. In 1978 its turnover was valued at R250 million[3].

Commercial agriculture is closely linked with other economic sectors. Food processing is the most important single manufacturing sector, accounting for 12,8 percent of total manufacturing production and sales in 1981. In the same year the value of sales of processed food exceeded R7 000 million, and the food industry employed about 200 000 people[4]. According to one measure, inputs from the commercial agricultural sector in manufacturing in 1975 totalled R1 882,32 million[5]. The value of agricultural outputs used as inputs in manufacturing sub-sectors in 1975 is given in Table 14 below.

In addition to the above forward links between commercial agriculture and manufacturing, farming also depends heavily on inputs from the manufacturing sector, ie, backward links. This information is conveyed in Table 15 below.

TABLE 14(6)

THE VALUE OF AGRICULTURAL INPUTS IN SOME SELECTED MANUFACTURING SUB-SECTORS IN 1975	
SUB-SECTOR	R million
Meat, dairy products and fish processing	659,88
Grain, sugar and animal feeds processing	654,28
Other food processing	237,67
Beverage industries	86,04
Tobacco products	56,36
Wool scouring, cotton ginning and dyeing of wool and cotton	52,26
Pulp, paper and paperboard	39,40
Wood and wood products	38,53
Rubber products	21,17

TABLE 15(7)

EXPENDITURE ON FARMING REQUISITES: 1980	
I T E M	R million
Vehicles, machinery and implements	554
Stockfeed	504
Fertilizer	482
Fuel	371
Maintenance of Machinery	299

Commercial agriculture is highly integrated into the structure of foreign trade. As far as exports are concerned, in 1980 they were valued at R1 787,4 million or 18,4 percent of total merchandise exports, excluding gold. The figures for agricultural exports for the period 1975-80 are presented in Table 16.

TABLE 16(8)

AGRICULTURE"S CONTRIBUTION TO TOTAL MERCHANDISE EXPORTS,
EXCLUDING GOLD: 1975-1980
R million at current prices

YEAR	AGRICULTURAL EXPORTS: Processed	Unprocessed	TOTAL	TOTAL MERCHANDISE EXPORTS (Excl.gold)	% AGRICULTURAL EXPORTS
1975	606,9	642,1	1 249,0	3 983,2	31,4
1976	650,8	586,6	1 237,4	4 532,1	27,3
1977	726,2	611,3	1 337,5	5 863,2	22,8
1978	767,6	776,2	1 543,8	7 333,3	21,1
1979	866,4	825,9	1 692,3	9471,4	17,9
1080	800,9	986,5	1 787,4	9 717,4	18,4

Of more significance than these exports are the agriculturally-related imports of machinery and fertilizers which accounted for 3,3 percent of total merchandise imports in 1976. This is shown in Table 17.

TABLE 17(9)

IMPORTS OF AGRICULTURAL REQUISITES AND TOTAL MERCHANDISE IMPORTS: 1971-1976
US$ million at current prices

I T E M	1971	1972	1973	1974	1975	1976
Crude fertilizers	5,5	5,5	7,2	11,7	23,2	15,4
Manufactured fertilizers	2,5	11,3	3,6	18,2	13,4	7,6
Pesticides	13,5	14,0	17,3	35,2	47,0	31,7
Agricultural machinery	86,6	89,5	87,9	146,6	275,6	171,9
Total Agricultural Requisites	108,1	120,2	116,1	211,7	359,1	226,7
Total Merchandise trade	4 024,2	3 649,1	4 717,8	7 225,9	7 597,4	6 769,3
Agricultural requisites as a % of total imports	2,7	3,3	2,5	2,9	4,7	3,3

This brief sketch of commercial agriculture shows that it is an important sector of the South African economy, that it is closely integrated with other sectors, and is a major source of foreign exchange. It is likely to be sensitive to sanctions because of its import dependence and export orientation.

As an employer of labour, the commercial agricultural sector is of much greater importance to the black population than to other racial groups. In 1970, 6,5 percent of whites were employed in the sector, compared with 16,3 percent of coloureds and 39,6 percent of blacks.[10] Despite the ongoing controversy about unemployment in South Africa[11], it is obvious that any sanctions policy leading to a fall in commercial agricultural output would have serious implications for employment. Table 18 indicates the approximate provincial distribution of employment by race and work category in the agricultural sector in 1973.

TABLE 18[12]

APPROXIMATE PROVINCIAL DISTRIBUTION OF COMMERCIAL AGRICULTURAL EMPLOYEES BY RACE AND WORK CATEGORY: 1973

PROVINCE	TOTAL EMPLOYEES	BLACK	COLOURED	ASIAN	WHITE
TRANSVAAL	550 000	545 000			
CAPE PROVINCE	435 000	235 000	200 000		
ORANGE FREE STATE	257 500	231 000			
NATAL	257 500				
TOTALS	1 500 000	1 260 000	223 000	4 000	13 000
of which:					
Regular	735 000				
Casual	645 000	526 967	95 120	237	867
Domestic	120 000				

NOTE: The classes of farm employees distinguished are:

(a) REGULAR EMPLOYEES - employees normally engaged in farm work in agriculture and in forestry and sugar cane plantations, and include managers, foremen and other regular farm employees.

(b) CASUAL EMPLOYEES - seasonal and occasional employees, excluding contractors and their employees.

(c) DOMESTIC EMPLOYEES - employees who are mainly or exclusively engaged in domestic work.

If the demand for commercial output declines then retrenched labour would fall back on the subsistence sector - the so-called "homeland" agricultural sector - which suffers increasingly from over-use of land and over-population. The consequences of sanctions on the potential repatriation of labour to the "national states" are thus significant, whereas, since agriculture does not depend heavily on foreign migrant workers, little effect would be felt beyond South Africa of a drop in such employment. Table 19 shows the origin and work place of South African blacks who are employed in commercial agriculture. Judging from these (incomplete) figures, reductions in employment in the Cape would affect mainly Transkei and Ciskei, both of which (in addition to Qwaqwa) would be similarly affected by unemployment in the Orange Free State (OFS). Lebowa would be affected by employment opportunities in the Transvaal.

TABLE 19[13]

COMMERCIAL AGRICULTURE : ORIGIN AND PROVINCE OF EMPLOYMENT OF BLACK SOUTH AFRICANS: 1973

ORIGIN	NO. OF WORKERS	PROVINCE OF EMPLOYMENT	NO. OF WORKERS
TRANSKEI) AND CISKEI)	455 000	Cape Province	304 850
		Orange Free State	72 800
QWAQWA	364 000	Orange Free State	291 200
LEBOWA	299 000	Transvaal	281 060
VENDA	130 000		

On the other hand, not all agriculture is of the same labour intensity. Therefore, reductions in output in commercial agricultural sub-sectors will have a varying impact on labour employment of regular, as well as, casual and seasonal employment. The labour input requirements of different types of production in 1973 are given below in Table 20.

It therefore follows that in those areas where production of agricultural output is most sensitive to sanctions, and where labour input is relatively high to capital, the most unemployment will occur. It now remains to explain in greater detail why the commercial agricultural sector would be sensitive to sanctions. As far as commercial output is concerned, approximately three-quarters of the total value in 1980/81 was accounted for by the eleven items in Table 21 below.

TABLE 20(14)

AVERAGE NUMBER OF REGULAR AND CASUAL WORKERS PER 100 HECTARES BY TYPE OF PRODUCTION IN 1973

TYPE OF PRODUCTION	NUMBER PER 100 HECTARES REGULAR	CASUAL
SUGAR CANE	125,9	75,3
VEGETABLES, PIGS AND POULTRY	84,9	28,9
DECIDUOUS FRUIT	11,7	10,7
OTHER FRUIT	24,1	14,7
MAIZE	17,8	18,0
CATTLE	12,0	23,1
SHEEP	3,1	3,4
CEREALS	14,2	10,3

TABLE 21(15)

SELECTED MAJOR AGRICULTURAL ITEMS BY PERCENTAGE CONTRIBUTION TO OUTPUT VALUE: 1980/81

I T E M	%
MAIZE	25
CATTLE AND CALF SLAUGHTERING	12
FOWLS SLAUGHTERED	7
WHEAT	5
SUGAR CANE	5
SHEEP AND GOAT SLAUGHTERING	5
HAY	4
WOOL	3
DECIDUOUS FRUIT	4
VEGETABLES	4
FRESH MILK AND DAIRY PRODUCTS	6

These items are included, in the main, in Table 22, which shows the data for total production in relation to exports, thus indicating the degree of foreign orientation, and therefore vulnerability to sanctions. The most export-orientated sub-sectors are wool, sugar, hides, citrus fruit and deciduous fruit.

TABLE 22 (16)

PRODUCTION AND EXPORT OF SELECTED AGRICULTURAL PRODUCTS: 1976/77

PRODUCT	TOTAL PRODUCTION	TOTAL EXPORT	% OF EXPORTS/ PRODUCTION
MAIZE	9 350 000 tons	1 513 000 tons	16
WHEAT	1 750 000 tons	240 000 tons	14
SUGAR	1 294 000 tons	1 070 000 tons	83
DECIDUOUS FRUIT	448 000 tons	249 000 tons	56 (1972 figures)
CITRUS FRUIT	652 000 tons	385 000 tons	59
TOBACCO LEAF	39 000 tons	7 000 tons	18
POTATOES	740 000 tons	8 000 tons	1
WINE	486 100 000 litres	19 400 000 litres	4
WOOL	92 100 000 Kgs	82 890 000 Kgs	90
KARAKUL PELTS	2 157 000	1 833	
HIDES (sheep, goats, calves)	29 200 000 Kgs	18 286 000 Kgs	62

Thus several products which constitute a high proportion of the total value of agricultural production, especially those which are heavily export orientated, are highly vulnerable to sanctions. If a comparatively high labour input is required, as for example in the case of sugar, then there may be serious implications for employment. Several minor crops are specifically export-orientated such as sorghum, dried fruit and pineapples, and a successful boycott of them could have severe repercussions in localised areas, for example, East London in the case of pineapples. This is also true of the fishing industry which is highly export orientated in fishmeal production and lobster catches[17]. In aggregate, those products which could render the economy most vulnerable are then maize, sugar, deciduous and citrus fruit, and wool, since they all contribute heavily to total production value, and are largely export orientated.

However, what are the possibilities of a successful poycott of these products? To attempt an answer we must look at world markets in general. In no commodity does South Africa approach domination of world markets as can be seen in Table 23. However, the elasticity of demand in the maize and fresh fruit markets is important. The former because of destination ie, mainly Africa, and the latter because of seasonal variations. In both instances, demand tends to be relative inelastic, in respect of both price and income. It is unlikely that the importing states would boycott South African maize, by virtue of its position as an essential staple food. The inelasticity in connection with fresh fruit is due to South African output being "in season", when the export markets concerned cannot easily find alternative supplies (domestic or foreign). Even tentative efforts by EEC nations to institute boycotts of South African fruit have been marginal and largely symbolic. This is especially significant in view of the fact that in 1975 Europe tool 56 percent of all South African agricultural exports.[18] The remainder was distributed as follows: Japan 19 percent, United States and Canada 11 percent, West and South East Asia 6 percent, Africa 5 percent, developing America 2 percent and OPEC countries 2 percent[19]. So far, there is no tangible evidence of a food or agricultural boycott of South Africa by importers outside Europe. In the case of Africa (see Chapter 7) the opposite may be inferred.

From a regional perspective, sanctions could create serious problems in the Western Cape for producers of fresh and canned fruit. The West Coast fishing industry would also be adversely affected. Natal would suffer in that difficulties might be faced in marketing sugar exports. The central upland areas of the Transvaal coula be affected by maize and citrus fruit boycotts, whilst the OFS is likely to be little affected, except by reductions in maize and wheat exports. Country-wide production of wool and hides could be severely affected. Both output and employment would be reduced, with black labour bearing the brunt of the reduction.

Much would depend on how widespread and well enforced the boycott would be. For example, it is unlikely that the maize sector would suffer severe dislocation as exports are in inelastic demand. Even so, if sanctions are plausible, then the stockpiling of maize and aeclining productivity due to

TABLE 23[20]

SELECTED SOUTH AFRICAN AGRICULTURAL EXPORTS AS A PROPORTION OF WORLD EXPORTS BY PRODUCT: 1976

I T E M	SOUTH AFRICAN EXPORTS AS A PERCENTAGE OF WORLD EXPORTS
MEAT, FRESH/FROZEN	0,77
MEAT, BOVINE FRESH	1,20
MEAT, SHEEP FRESH	0,12
MEAT, CANNED	0,60
MILK, CONDENSED, FRESH AND DRY	0,12
CEREALS	1,10
WHEATFLOUR, WHEAT EQUIVALENT	0,25
MAIZE	3,50
ORANGES, TANGERINES, CLEMENTINES	3,50
OTHER CITRUS FRUIT INCLUDING PINEAPPLES	3,60
APPLES	2,90
GRAPES	3,90
PEARS	4,80
SUGAR, TOTAL RAW EQUIVALENT	3,30
SUGAR, RAW CENTRIFUGE	4,50
WINES AND VERMOUTH	0,20
TOBACCO, UNMANUFACTURED	0,40
WOOL, GREASY	7,20
WOOL, DEGREASED	2,90

lack of suitable inputs, may keep output and employment levels artificially high in the maize sector. Similar analysis may apply to other crops and/or agricultural sub-sectors, whilst the effect on the subsistence sector would presumably be negligible. Moreover, the experience of Rhodesia indicates possibilities for agricultural diversification, and the masking of the origin of agricultural exports. Were this practice largely applied in South Africa too, the availability of imported inputs would be crucial rather than the marketing of output. However, as in the case of Rhodesia, the South African Government is committed to maintain and support the agricultural sector, from where it draws much political support. To this end it is likely that high producer prices would continue to be paid to farmers, and additionally, schemes to stockpile output, quotas to restrict output, and tax incentives to diversify production would be introduced. These moves would increase the burden of the non-agricultural sectors in supporting a thus ailing agricultural sector.

GOLD

It is difficult to overstate the significance of gold in the South African economy generally; its specific importance in foreign earnings is evident from Table 24 below, from which it appears that the contribution of net gold output to total foreign earnings fluctuated between 26,2 and 45,0 percent during the period 1975-1981.

TABLE 24[21]

SOUTH AFRICAN BALANCE OF PAYMENTS : CURRENT RECEIPTS: 1975-1981

	1975	1976	1977	1978	1979	1980	1981
MERCHANDISE EXPORTS	3 653	4 889	6 293	7 449	8 813	9 643	9 328
NET GOLD OUTPUT	2 540	2 346	2 795	3 864	6 003	10 141	8 338
SERVICE RECEIPTS	1 400	1 497	1 595	1 949	2 334	2 761	3 117
% OF GOLD TO TOTAL CURRENT ACCOUNT RECEIPTS	33,5	26,9	26,2	29,1	35,0	45,0	40,1

South Africa mines about half of all the current world production of gold, and more than 70 percent of the "non-communist" output. Non-monetary uses of gold include industrial application in electronics and dentistry (about 12 percent of annual world production[22]) and jewellery. As far as these applications are concerned, substitutes are as a rule available in the industrial field, possibly at some small cost to the electronics industry, but at reduced cost to dentistry. It is not these applications of gold that are really significant from the South African point of view; in contrast with the monetary role of or "asset" demand for gold.

The asset demand for gold falls essentially into two parts: a reserve demand by monetary authorities and a (more or less speculative) demand by private buyers. This role is to an important extent derived from the historical function of gold as an important form of money. For more than 2 000 years coins were the main means of payment, of which gold coins were either the main component or the most highly valued[23]. In spite of the abandonment of the international gold standard at the outbreak of the First World War, gold retained an important place in international trade and finance. Thus, a modified gold standard was adopted by the IMF in 1944, which officially lasted until 1978, when gold was formally "demonetised". (This policy was persistently pursued by the United States Treasury, which also has strong influence in the IMF). This does not, however, mean that gold no longer has an international monetary significance or function, For example, the IMF has retained two-thirds of the gold quotas originally supplied by member countries, central banks still keep gold as part of their foreign reserves, gold is used a collateral in international credit transactions, its significance is explicity recognised in the European monetary system, and central banks have, at least recently, been selling gold in order to obtain foreign currency.

Although there is at present no extensive literature on the place of gold in a sanctions campaign against South Africa, some commentators have addressed themselves to the question. For example, Rogers and Bolton write: "Logically, sanctions against South Africa would have to include a ban on gold imports from there, which in turn would mean a drastic reduction in the amount of newly-mined gold available to the world market. We need to consider ways and means of preparing for this to happen without either making sanctions a mockery by wide-spread evasion, or causing the gold price on the world market to sky-rocket"[24]. From a practical point of view, it is, however, difficult to see what stabilising steps could be taken in the private gold market, if it were to be deprived of future South African gold supplies. In principle, these authors are on firmer ground when they point out that: "There is no shortage of proposals for improving the international monetary system along rational lines, and removing the residual role of gold".[25]

Another pro-sanctions author, Charles Elliot, presents an argument in respect of a consensus which he considers a prerequisite to a successful boycott of South African gold output: "It is a scenario which envisages the acceptance by both the demonetisers and the gold orthodoxists of the proposition that their case would be strengthened by a more orderly gold market. For the gold orthodoxists this proposition poses little difficulty since any return to an official gold price, and a regime of fixed exchange rates must involve much greater stability in the free market price of gold. For the demonetisers, a slowly falling price of gold would be a very useful weapon in their struggle to convince the orthodoxists that their interests would be better served by the substitution of SDRs for gold in their reserves, since there are a variety of ways of ensuring that the real value of SDRs is maintained in a way that there is not at present for gold. In this scenario, then, both groups would seek to off-load monetary gold on to the free market with a view to stabilizing the price for the orthodoxists and reducing the price, albeit slowly and in a relatively orderly fashion for the demonetisers. In either case, substantial monetary gold would be released on to the free market and both groups would welcome the loss of newly mined gold".[26]

The points raised in the above quotation may well be relevant to some of the recent controversy surrounding the academic debate concerning the position of gold. However, both historical evidence and universal practice would indicate that the demand for gold rests on a far broader consideration. The ineffectiveness of the official demonetisation of gold is, of course, illustrated by the fact that the trend of the gold price has been strongly upward since "demonetisation", in spite of marked short term fluctuations. (Perhaps the major source of instability in the gold market lies in the potential role which existing stocks, rather than current production, does play from time to time.) Perhaps even to a greater extent than the so-called strategic minerals discussed in the previous chapter, South Africa's position as the world's leading gold producer would render a comprehensive sanctions campaign difficult indeed to implement.

The exclusion of gold from a set of comprehensive economic sanctions against South Africa would evidently make the failure of sanctions a foregone conclusion, as the foreign currency needed to pay for essential imports would still be available.

Apart from its crucial role in financing imports, gold also influences the domestic economy in other ways. For example, although virtually all the gold output is exported and its forward linkage is therefore weak, the backward linkages are considerable. A successful boycott of gold would have serious consequences for the South African economy in terms of labour, industrial, commercial, agricultural and other inputs. Table 25 gives an indication of the input structure of gold mining, ie, the extent to which it purchases outputs from other sectors of the economy.

TABLE 25[27]

SELECTED MAJOR INPUTS IN THE GOLD MINING INDUSTRY: 1975

S E C T O R	R million	%
AGRICULTURE, FORESTRY & FISHING	36,39	1,4
BASIC CHEMICALS, PETROLEUM & COAL PRODUCTS	18,61	0,7
PAINT & OTHER CHEMICAL PRODUCTS	31,43	1,2
RUBBER PRODUCTS	22,88	0,9
FABRICATED METAL PRODUCTS	39,65	1,5
MACHINERY, EXCEPT ELECTRICAL MACHINERY	58,64	2,2
ELECTRICAL MACHINERY	13,46	0,5
ELECTRICITY	72,39	2,7
WHOLESALE & RETAIL TRADE, MOTOR TRADE & REPAIR SERVICES	24,21	0,9
TRANSPORT, STORAGE & COMMUNICATIONS	13,88	0,5
GOODS & SERVICES NOT CLASSIFIED BY DESTINATION	71,22	2,7
OTHER INPUTS	64,35	2,4
TOTAL INTERMEDIATE INPUTS	467,11	17,7
REMUNERATION OF EMPLOYEES	731,33	27,8
GROSS OPERATING SURPLUS	1451,35	55,1
NET INDIRECT TAXES	8,03	-
LESS: PRODUCTS TRANSFERRED	23,32	-
TOTAL VALUE	2634,51	100,0

Apart from still being an important contributor, both directly and indirectly, to national income in South Africa, the major single source of foreign exchange earnings and a significant employer of labour in the broader regional context, a rising gold price has also in recent times served to cushion the South African economy against sudden increases in the international oil price. Much of South Africa's recent economic growth performance has also obviously been associated with the forunes of gold. In general, the authors of the current Economic Development Programme state that: "The important role played by gold in the South African economy has been reaffirmed to such an extent that any substantial decline in the gold price can change the short term economic climate from optimism to pessimism"[28].

MANUFACTURING

Historically, the manufacturing sector in South Africa has experienced significant growth relative to the rest of the economy. This is evident from the figures in Table 26 below.

TABLE 26[(29)]

PERCENTAGE DISTRIBUTION OF GDP AT FACTOR COST BY KIND OF ECONOMIC ACTIVITY 1911-1981 (at current prices)

YEAR	AGRICULTURE, FORESTRY & FISHING	MINING & QUARRYING	MANUFACTURING
1911	21,1	27,6	3,8
1920	22,2	18,3	7,3
1930	14,2	15,6	9,3
1940	12,7	18,8	12,4
1950	17,7	13,5	16,4
1960	12,3	14,2	18,7
1970	8,2	10,2	23,6
1980	6,9	22,9	22,6
1981	7,4	16,7	24,4

The structure of manufacturing industry in terms of the respective contribution of individual sectors to the total value of output as well as the percentage of the total labour employed, is given in Table 27 below.

It is well known that the composition of South Africa's manufacturing output has undergone significant changes in the long term; broadly speaking, the proportion of capital equipment and intermediate products has risen relative to consumer goods.[30] However, this relative trend should not be allowed to

TABLE 27(31)

VALUE OF OUTPUT AND EMPLOYMENT IN THE MANUFACTURING SECTOR: 1981 (R '000)

	VALUE OF OUTPUT	%	EMPLOYMENT	%
1. TOTAL MANUFACTURING	56 047,029	100,0	1 468,400	100,0
2. FOOD	7 146,233	12,7	174,600	11,8
3. BEVERAGES	2 517,916	4,5	35,700	2,4
4. TOBACCO PRODUCTS	596,819	1,1	5,500	0,3
5. TEXTILES	2 271,082	4,1	118,400	8,0
6. WEARING APPAREL EXCEPT FOOTWEAR	1 378,644	2,5	115,900	7,8
7. LEATHER & LEATHER PRODUCTS	222,816	0,4	10,700	0,7
8. FOOTWEAR	547,805	1,0	27,200	1,8
9. WOOD & WOOD & CORK PRODUCTS	857,487	1,5	53,200	3,6
10. FURNITURE (WOOD)	715,245	1,3	34,500	2,3
11. PAPER & PAPEAR PRODUCTS	1 777,362	3,2	36,300	2,5
12. PRINTING, PUBLISHING & ALLIED INDUSTRIES	1 089,255	1,9	45,600	3,1
13. INDUSTRIAL CHEMICALS	3 217,240	5,7	103,000	7,0
14. OTHER CHEMICAL PRODUCTS	5 972,099	10,7	-	-
15. RUBBER PRODUCTS	679,877	1,2	19,300	1,3
16. PLASTIC PRODUCTS, n.e.c.	762,762	1,4	27,100	1,8
17. POTTERY, CHINA & EARTHENWARE	55,032	0,1)		
18. GLASS & GLASS PRODUCTS	328,716	0,6)-	94,300	6,4
19. OTHER NON-METALIC MINERAL PRODUCTS	1 839,644	3,3)		
20. IRON & STEEL BASIC INDUSTRIES	4 054,428	7,2)-	123,300	8,4
21. NON-FERROUS METAL BASIC INDUSTRIES	1 196,487	2,1)		
22. FABRICATED METAL PRODUCTS EXCEPT MACHINERY	7 720,981	13,8	139,000	9,5
23. MACHINERY, EXCEPT ELECTRICAL MACHINERY	3 147,413	5,6	84,500	5,8
24. ELECTRICAL MACHINERY,ETC	2 256,919	4,0	79,900	5,4
25. MOTOR VEHICLES, PARTS & ACCESSORIES	4 208,320	7,5)-	115,800	7,9
26. TRANSPORT EQUIPMENT, EXCEPT MOTOR VEHICLES	505,555	0,9)		
27. PROFESSIONAL AND SCIENTIFIC EQUIPMENT,ETC	103,641	0,2	4,500	0,3
28. OTHER INDUSTRIES	880,253	1,6	20,100	1,4

obscure the fact of deliberatley cultivated growth in the field of consumer goods' output in South Africa[32], by means of tariff protection and other forms of import control, ie., collectively known as the policy of import substitution or replacement[33]. It is generally thought that any significant extension of this policy would in future have to take place in the fields of intermediate and capital goods, as the scope for additional import substitution of consumer goods has been almost exhausted[34]. At the present time, however, South Africa remains a heavy net importer of capital and intermediate goods, a state of affairs which contains some fundamental economic problems, as is for example indicated in the Reynders Commission Report: "At the present stage of South Africa's development the main potential of a programme of import replacement has been realised. The still large propensity to import especially capital and intermediate goods, the much greater difficulties involved in further import substitutions and the lagging behaviour of exports are bound to become major factors in the future."[35]

These developments and prospects in the South African manufacturing sector also have certain implications for the potential application of sanctions, although these are not always clear-cut. This is presumably the main reason why authors on the subject have contributed comparatively little to this particular aspect of (the discussion on) sanctions against South Africa. What literature there does exist, often tends to present import substitution as a measure to counter sanctions on exports to South Africa[36]. However, this approach is not usually helpful, as the policy of import substitution was instituted as far back as the 1920s, in order to deliberately foster local manufacturing and solve the unemployment aspect of the "Poor White" problem; while economic sanctions were simply not an issue until the 1960s. Since then, the South African government has of course deliberately cultivated certain industries considered to be "strategic" (in a narrow sense) to the performance of the economy in general, and the armed forces in particular: for example, Armscor (armaments), Soekor (oil exploration), the extension to Sasol (oil-from-coal), the Atlantis Diesel Engine plant, and enriched uranium.

However, the ability of the private sector to apply import substitution to capital goods is obviously affected by such considerations as economies of scale, the size of the market, unit cost of production, and efficiency and competitiveness, to a far greater extent than in the case of the examples mentioned above, where recourse to public funds is the rule rather than the exception. Table 4 in the first section of the previous chapter shows that (apart from oil and military equipment) the major items comprising South African imports are: Machinery, Vehicles and transport equipment, Chemicals and chemical products, and Base metals and metal products. Together they accounted for virtually half of the total value of imports in 1980, or almost 80 percent if oil and military goods are included. From a purely practical point of view, the effective application of a boycott of exports to South Africa must therefore lie in this direction.

Those local industries which would be most affected by a boycott of exports to South Africa tend to be capital-intensive: for example Basic industrial chemicals (including crude oil), Machinery (excluding electrical machinery), Motor vehicles, Electrical machinery and equipment, and Basic iron and steel [37]. With the partial exception of motor vehicles these industries themselves produce capital goods and intermediate products. An effective boycott of South Africa in the field of manufacturing would therefore concentrate on denying foreign inputs to the local industry, which would then curtail the scope for development in the South African capital goods industry.

The implications of such a boycott for employment in South Africa are not necessarily obvious. Although the industries that would be most affected tend to be capital- rather than labour-intensive, they also have relatively strong forward and even considerable backward linkage. The net potential impact on employment would therefore seem greater than at first sight. However, at the same time, scarcity of foreign-produced capital inputs might give rise to a substitution of labour for capital in the affected industries, as well as a possible shift from capital-intensive to labour-intensive industries in general. A boycott of capital goods exports to South Africa may thus, ceteris paribus, have the end result of actually reversing the recently observed trend of capital deepening in the economy[38], and the resulting increase in the rate of (especially less-skilled) unemployment. The practical difficulty here is, of course, derived from the fact that the ultimate consequences of sanctions on virtually any aspect of economic activity requires a general rather than partial approach, ie, a comprehensive input-output model of the economy. The estimation of such a model is, however, beyond the scope of this thesis, if it is a feasible exercise at all.

Perhaps it would be sensible to asess the potential impact of an embargo on imported capital goods precisely as such: unavailability of certain production factors. The immediate consequence of such a boycott on employment, economic growth, etc, may, then, not necessarily be severe. However, as the Rhodesian example has shown (see Chapter 2 above), the inability to replace depreciating and obsolete capital goods is, in the long term, indeed, likely to cause widespread unemployment and negative economic growth.

These considerations, of course, as reasoned above, do not preclude factor substitution ie, the adoption of production methods suited to a condition of sanctions. Thus, Dr H J J Reynders is reported to have said: "If we had to, we could make just about everything we need, even if we have to make it by hand"[39]. However, improvised production techniques are not always efficient and may serve to increase the unit cost of production. This phenomenon is already evident in the case of at least some of the "strategic industries" referred to above, where South Africa is manufacturing products in which she does not have a comparative advantage, as an anti-sanctions precaution. In other words, progressive import replacement in the capital goods industries would also render the structure of South African manufacturing less efficient and competitive, thus entrenching an inflationary bias in the economy generally. The ultimate consequences of sanctions on exports to South Africa would therefore be a misallocation of resources and secular inflation.

Agriculture, in particular, is vulnerable to sanction on two counts: its position with regard to South Africa's export trade was discussed in the first section of this chapter; the remainder of this section outlines the broad relationship between sanction and the importation of agricultural inputs. The position in this respect may be briefly summarised as follows: "Of the four major inputs into the agricultural sector - agricultural machinery and vehicles, fertilizers and pesticides, fuel and stockfeeds - South Africa is only totally self-sufficient in stockfeeds. Most oil-based fuels, the bulk of (and all heavy) agricultural machinery and certain essential fertilizers and pesticides have to be imported"[40]

As far as agricultural machinery is concerned, over 75 percent of annual purchases are imported or some R225 million in 1978[41]. All tractors used in 1979 were imported directly or indirectly[42], but local production of tractor components at the Atlantis Diesel Engine plant has marginally affected this figure since then. However, this plant still has a high import input content, and is unable to manufacture the heavier tractors on which the sector is becoming increasingly reliant. Moreover, as identified above, it represents a case of comparatively high cost and an erosion of international competitiveness.

Table 28 below gives the sales of tractors, in 1977 and 1978, according to manufacturer. Vetsak and Malcomess are local companies which produce some equipment, but import tractors for resale. Ford, John Deere and International Harvester are American, Massey Ferguson is Canadian and Deutz is German.

TABLE 28(43)

TRACTOR SALES IN SOUTH AFRICA: 1977 AND 1978

MANUFACTURER	1977		1978	
	UNIT SALES	% OF MARKET	UNIT SALES	% OF MARKET
FORD	3 500	24,1	2 702	22,5
MASSEY FERGUSON	3 106	21,4	2 585	21,5
VETSAK	2 609	18,0	2 213	18,4
JOHN DEERE	2 055	14,2	1 676	14,0
MALCOMESS	805	5,5	715	6,0
INTERNATIONAL HARVESTER	837	5,8	622	5,2
DEUTZ	621	4,3	465	#,9
OTHERS	971	6,7	1 023	8,5
TOTALS	14,504	100,0	12 001	100,0

A broader perspective of the country of origin of agricultural machinery imports in general is obtained by summing the contribution by country to imports of the following items: tractors, combine harvesters, ploughs, harvesting and threshing machines, dairy machines, straw anD fodder presses, egg grading machines and sprayer/sprinkler equipment. This gives the figures in Table 29 below.

Of the three main groups of fertilizer, namely, nitrogen, phosphate and potash, South Africa is self-sufficient in the first two, but dependent on

TABLE 29(44)

PERCENTAGE CONTRIBUTION BY VALUE OF MAIN EXPORTERS TO SOUTH AFRICA OF SELECTED AGRICULTURAL MACHINERY, 1980

COUNTRY	PERCENTAGE
USA	25
WEST GERMANY	22
UK	19
ITALY	11
BELGIUM	3
CANADA	2
SWEDEN	2
NETHERLANDS	1
FRANCE	1
OTHER	14
TOTAL	100

imports for potash. Fertilizer is an imortant input in maize, sugar, wheat and cotton production. Maize and sugar farming constitute the major components of potash consumption, circa 60 percent. The main suppliers of potash, in 1976, were France (48 percent), West Germany (20 percent), Canada (18 percent) and Israel (14 percent)[45]. Potash import replacement would be costly and uneconomic. In addition to importing fertiliser, South Africa imports about 40 percent of its pesticide inputs for use in the fruit, wine, tobacco, and sugar sub-sectors. These imports increased in value by some 250 percent between 1972 and 1976, and were largely made up of brands which cannot be made locally due to patents or technology. However, the ICI- and Anglo-American-controlled company, African Explosives & Chemical Industries and also Fedmis are increasing local pesticide output.

In summary, then, it appears that South African manufacture in general (and agriculture in particular) is not only vulnerable to sanctions in terms of a boycott of (commercial agricultural) exports, but also because of the high import dependence on many (agricultural) inputs such as oil fuels, machinery and spare parts, which are almost exclusively supplied by USA, Canada, the EEC and Japan.

OIL

The literature on sanctions usually refers to South African dependence on oil imports as the "Achilles Heel" of her economy[46], although South Africa's energy requirements are met from coal to a greater extent than from oil, and plans for producing nuclear energy are comparatively advanced[47]. However, oil is still an essential input in many vital sectors of the economy, and despite extensive oil exploration backed by the government no commercially viable natural oil deposits have (as yet) been located[48]. Vulnerability to international sanctions has been reduced in recent years by strategic stockpiling, import substitution and fuel conservation methods.

Several features of the South African energy sector are worth noting. Firstly, South Africa is not nearly as reliant upon oil for energy requirements as most other industrialised or semi-industrialised nations. Secondly, the bulk of energy needs is provided by coal which is abundant and accessible, and therefore relatively cheap. It is used mainly to generate electricity which is the most important form of energy. Table 30, which shows energy consumption by sector, suggests that only the transport and household sectors are likely to suffer disruption in the short run in the event of sanctions on oil.

TABLE 30(49)

CONSUMPTION OF USEFUL ENERGY BY MAJOR CONSUMER SECTORS IN 1968 and 1974

SECTOR	YEAR	ELECTRICITY %	COAL %	OIL %	GAS %	COKE & GAS COKE %	TOTAL %
MANUFACTURING	1968	20,0	31,9	7,0	16,7	24,4	100,0
	1974	22,9	25,6	8,4	26,0	17,1	100,0
MINING	1968	66,9	31,7	1,4	-	-	100,0
	1974	87,9	9,4	2,7	-	-	100,0
HOUSEHOLD	1968	32,6	31,7	34,5	0,9	0,2	100,0
	1974	49,3	22,9	27,6	0,3	0,1	100,0
TRANSPORT	1968	10,8	14,2	75,0	-	-	100,0
	1974	14,6	6,0	49,4	-	-	100,0
ALL SECTORS	1968	27,1	29,2	20,5	9,5	13,7	100,0
	1974	32,6	20,9	19,6	16,2	10,7	100,0

Martin Bailey, the most prolific author on the subject of an oil boycott and South Africa, estimated in 1979 that South Africa's total demand for oil was approximately 320 000 barrels per day[50]. Together with Bernard Rivers, he also estimated that daily imports in 1978 were over 400 000 barrels[51], which thus suggests that approximately 80 000 barrels per day were being stockpiled. Estimates of the extent of this oil stockpile, measured in terms of how long the stockpile would last at "present" rates of consumption, vary from 18 months[52] to 3 years[53]. This period could obviously be extended by fuel conservation measures. Additionally, the production of local "synthetic" oil by the Sasol plants will cushion the economy against an oil embargo. Spandau estimated in 1979 that the Sasol plants could be producing 25 percent of South Africa's oil demand (at current levels) in 1981-2[54], and it is predicted that the Sasol project could be supplying 60 percent of consumption by 1984,[55] though this seems somewhat optimistic.

As a complement to this pioneering work in oil-from-coal extraction, the possibilities of manufacturing fuel additives such as methanol and ethanol are being investigated. Some experts believe that these fuels could eventually supply about 20 percent of South Africa's liquid fuel needs[56]. Therefore, it appears that, technically speaking, the country is becoming increasingly independent of foreign energy supplies.

Since 1973 OPEC states have maintained an unofficial oil boycott of South Africa. Iran, however, initially disregarded this boycott and, until the Shah's overthrow in 1979, was supplying as much as 90 percent of South African crude imports. The new Iranian administration stopped this trade and South Africa is now largely confined to the international spot market for oil supplies. Thus the OPEC boycott has not halted the flow of oil to South Africa, though it has increased the costs of procurement. In a recent article Bailey reported comprehensively on the supply of oil to South Africa between January 1979 and March 1980[57]. In this period about 150 tankers offloaded oil at either Cape Town or Durban. Bailey attributes the breaking of the oil boycott to "unscrupulous companies", though he does state that "it is possible that the governments of some of these countries (OPEC) are aware that their oil is being shipped to South Africa"[58].

It would appear, then, that even in the face of a mandatory oil embargo some considerable oil supplies may still be shipped to South Africa[59]. Commentators in favour of a mandatory oil boycott argue that it is a selective economic action which would be directed mainly at the white population of South Africa. The counter-argument stresses that whilst this may be true, the economic links in the sub-continent are such that the populations of neighbouring countries would have to endure hardship. Whilst this conflict of interest continues the chances of a mandatory oil boycott remain slim. Although oil stockpiling and the supply of essential goods to South Africa's neighbours, in the event of sanctions on South Africa, were discussed at the recent Paris conference, little action has been initiated[60]. The logistics and costs of policing a mandatory oil boycott present a formidable hurdle to sanctionists.

In the event of such a boycott the rationing function of high prices would be supplemented by administrative controls. The government would probably attempt to keep price increases within "acceptable limits" as inflationary pressures, induced by costs of recovery from widespread oil stockpiles and administrative costs, built up, and it is likely that a significant blackmarket in fuel would develop. Generally it appears unlikely that the agricultural, manufacturing and mining sectors would be affected severely in the short term. However, the productivity of the transport sector may be affected since it is the most reliant on fuel inputs (see Table 30), and consumers in the household sector may bear the brunt of oil sanctions, particularly in the short run. In the medium term, stockpiles would diminish and a greater premium placed on obtaining oil supplies. Employment and output in the motor industry of the Port Elizabeth/Uitenhage/East London complex would probably decline[61]. Measures to reinforce fuel conservation are likley to be adopted. The long term effects of an oil boycott would be dependent on the flow of demand and especially supply. Some loss in the quality of life of consumers in general would be entailed, and the transport system in particular could be severely pressured. However, the indications are that no severe dislocation would occur in the long run, unless an oil boycott was policed effectively, and even this may not be a sufficient condition, as loss of imported oil would only curtail supply by an estimated 40 to 50 percent[62]. This reduction could be apportioned between military, agricultural, transport and household use without bringing the country to an economic standstill.

Many advocates of an oil boycott stress that the military sector is the most reliant on oil supplies (this is obviously not reflected in Table 30 above). However, given the top policy priority accorded to military fuel needs, a general of shortage of oil is unlikely to affect the South African Defence Force directly. The purported attraction of an oil boycott is that it is said to represent the least cost option to sanctioners and an effective form of pressure on the South African government. Various more-or-less sophisticated calculations have been made in the attempt to estimate how long South Africa could "survive" under an oil boycott. Table 31 below gives Bailey's estimate of South Africa's requirements in this respect.

TABLE 31[63]

SOUTH AFRICA'S OIL IMPORTS: 1979-86 : TWO SCENARIOS
(figures in thousand barrels per day)

	1979	1980	1981	1982	1983	1984	1985	1986
A. "GROWTH" (4,4 %) SCENARIO:								
TOTAL DEMAND	320	334	349	364	380	397	414	433
MINUS EXPORTS TO NEIGHBOURS	24	25	26	28	29	30	31	33
MINUS 10% REDUCTION IN CONSUMPTION	29	31	32	34	35	37	38	40
MINUS OIL-FROM-COAL PRODUCTION	5	28	50	50	95	95	95	95
NECESSARY IMPORTS	262	250	241	252	221	235	250	265
B. "NO GROWTH" (0,0%) SCENARIO								
TOTAL DEMAND	320	320	320	320	320	320	320	320
MINUS EXPORTS TO NEIGHBOURS	27	27	27	27	27	27	27	27
MINUS 10% REDUCTION IN CONSUMPTION	29	29	29	29	29	29	29	29
MINUS OIL-FROM-COAL PRODUCTION	5	28	50	50	95	95	95	95
NECESSARY IMPORTS	259	236	214	214	169	169	169	169

Bailey postulates two scenarios: one assumes zero growth and the other an average annual growth of 4,4 percent (until 1986), for the South African economy. Each growth scenario has its associated (linear) oil requirements. Bailey assumes that it would be possible to reduce consumption by 10 percent without severe dislocaton and that South Africa would cease supplying oil to her neighbours. He then postulates that the country could "survive" for roughly 2,7 years depending on what the energy requirements were, and when the embargo was introduced. The broad outline of his conclusions appear in Table 32 below.

TABLE 32[64]

PERIOD OVER WHICH SOUTH AFRICA COULD "SURVIVE" AN OIL EMBARGO		
YEAR EMBARGO INTRODUCED	"GROWTH" SCENARIO	"NO-GROWTH" SCENARIO
1981	2,3 YEARS	2,6 YEARS
1983	2,5 YEARS	3,2 YEARS
1985	2,2 YEARS	3,2 YEARS

The accuracy of Bailey's "calculation" depends critically on the size of the present oil stockpile and the future flow of oil supplies, both of which are presently a matter of conjecture.

CONCLUDING REMARKS

From the present and the previous chapter it emerges that the fields of mineral and agricultural exports, gold sales, as well as the imports of agricultural and capital inputs in general, and that of petroleum products in particular, represent the target areas which are most vulnerable to economic sanctions on South Africa. In theory, at least, the comparatively small number of partners with whom South Africa conducts the bulk of her foreign trade may appear to make the application of sanctions feasible. However, the countries and/or organisations that advocate sanctions are as a rule quite distinct from the trading partners practically equipped to apply sanctions. In a sense, a successful sanctions program would involve one group (South Africa's trading partners) doing the work of another group (the sanctioners) at their own expense. Realistically speaking, it simply seems too much to expect the former "to do the dirty work" of the latter, and themselves suffer a loss in the process. Another functional shortcoming of sanctions advocated so far, is that they mostly represent short term measures, usually aimed at certain balance of payments items, whilst their ultimate aim is professed to be a structural or long term one. As the effects of short term measures can often be neutralised or countered by a process substitution, the whole methodology underlying the sanctioning process seems questionable. This point is taken up in the following chapter on the subject of foreign investment in South Africa.

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CHAPTER VI

FOREIGN INVESTMENT AND SANCTIONS

"South Africa could never have become what it is today without foreign investment. At every stage in its history foreign investment has played the central role in its economic development"[1]. This is a view expressed by a pro-sanctions writer, which is also widely echoed by economic commentators of all shades of opinion. D Hobart Houghton in his book The South African Economy wrote "Prior to 1865 South Africa was a poor country with little to attract capital from abroad. The diamond discoveries of 1865 and the gold discoveries of 1886 altered the situation profoundly, for they provided the attrection to put South Africa suddenly in the forefront of the world's investment market"[2]. The subsequent inflow of foreign capital transformed the country into a modern exchange economy, providing the basis for economic growth. Associated with this inflow has been an influx of skilled labour and technical knowledge without which the economy could not have developed. Foreign investment though initially associated with the mining sector has taken on a far more diversified look, and an Afrikaanse Handelsinstituut report is quoted as stating that as much as 80 percent of industrial production is controlled, directly or indirectly, by foreign capital[3].

Foreign investment deserves a special place in this analysis because it is a highly visible and important form of overseas economic involvement in South Africa. The term "foreign investment" is often used in the literature on sanctions in a global sense, and also treated as an amorphous concept, which can be difficult to break down into individual parts that are functionally valid. Some such disaggretation is, however, necessary and will be attempted below. The most comprehensive analysis of the pattern of foreign investment in South Africa, in the context of economic sanctions, has to date been Simon Clarke's paper "Financial Aspects of Economic Sanctions on South Africa"[4]. For the sake of convenience this chapter follows his classification of foreign investment into direct investment, portfolio investment, and direct lending. This is done to enable some analysis of direct lending, which would not be possible if the traditional classification into direct investment and non-direct investment was adopted[5]. After examining the sources and uses of foreign capital, some further aspects of the matter are also discussed, namely: the qualitative impact of foreign investment; the policy implications for potential sanctioners; and the surmised effects of foreign investment sanctions on the South Africa economy.

DIRECT INVESTMENT

For the purposes of this study, even though we are using Clarke's classification of foreign investment, direct investment can be defined according to the South African Reserve Bank definition because, as Clarke himself notes, "direct lending from parent companies to their overseas affiliates is included within direct investment"[6]. For obvious practical reasons it is not possible to distinguish between types of intra-company financing, one of which will be direct lending. Thus direct investment is defined as "the total investment of foreigners who had a controlling interest in organisations in South Africa and the investment, in these organisations, of their affiliates or allied organisations or persons in foreign countries"[7]. Furthermore, the Reserve Bank generally deems a "controlling interest" to exist where an individual or group of individuals have 20 percent or more of the voting rights in a company[8].

Although most countries adopt the International Monetary Fund (IMF) classification of foreign investment into direct and non-direct investment, international comparison of data is complicated by differing national definitions of what, for example, constitutes direct investment. Additionally, the compilation of data also varies from country to country, and thus it must be expected that disparities will exist between each nation's published figures. Such issues are not of purely technical significance, as such definitions are relevant to any programme of restriction on foreign investment. Moreover, the fact that subsidiary companies are legally incorporated in South Africa, and therefore legally independent of foreign control, could militate against the monitoring of sanctions where conflicts of interest arise, since South African companies are subject to legislation preventing the disclosure of "sensitive information".

The position and significance of direct foreign investment in South Africa is summarised by Clarke: "The major trans-national mining, manufacturing, oil, commercial and financial corporations with a significant stake in South Africa hold their assets in the form of direct investment. For various reasons of company law, taxation and of dividend and exchange control it is considerably more advantageous to establish a subsidiary in South Africa, rather than to establish a branch. Thus over 95 percent of British direct investment in South Africa is channelled through subsidiary and associate companies rather than branches, and the figures for other countries are not significantly lower ... Until recently well over half the foreign investments in South Africa were in the form of direct investments made by foreign companies in their South African branches and their associates. Almost three-quarters of British investment was in the form of direct investment in 1972, and until recently Britain was by far the largest investor in South Africa, British investors having as large a stake in 1972 as all other countries put together. Then British companies accounted for almost two-thirds of the direct investments in South Africa whilst South African investments made up almost 10 percent of all British direct investment overseas"[9].

The foreign liabilities (ie, foreign investment) of South Africa by creditor for the period 1956-1976 are shown in Table 33. Britain's share of total foreign investment has declined significantly since 1979 mainly because the non-direct investment of the United States, Germany, Switzerland and France has increased considerably. As far as direct investment in South Africa is concerned, the average annual percentage increase between 1972 and 1977, as shown in Table 34 indicates that Germany's stake increased most rapidly, although the US and Britain were not far behind.

Thus despite short term fluctuations in both global and South African economic performance foreign direct investment has continued to grow at a rapid rate in current prices, evidently sufficient to maintain its real value over time. The increase in South Africa's total foreign liabilities under the heading of direct investment is shown in Table 35 for 1973-1979.

When studying these figures certain pertinent factors must be borne in mind. Firstly, the majority of direct investment is financed out of unremitted profits and to this extent new injections of capital are reduced. Therefore direct investment is likely to increase even in the absence of new capital flow. Secondly, despite the relative slump in business confidence in the mid-1970s, direct foreign investment continued to increase. Thirdly, the figures do not reveal the extent to which international companies have financed local expansion from local sources, eg. borrowing from the local banks, and may therefore understate the growth of foreign direct investment.

TABLE 33(10)

SOUTH AFRICA'SA FOREIGN LIABILITIES BY CREDITORS, 1956 TO 1976
(R million and percentage values)

YEAR		UNITED KINGDOM	USA	FRANCE	SWITZER-LAND	GERMANY	INTER-NATIONAL ORGANI-SATIONS	OTHERS	TOTAL
1956	Rm	1 731	342	147	88	-	134	348	2 790
	%	62	12	5	3	-	5	13	100
1950	Rm	1 815	347	168	97	-	203	394	3024
	%	60	11	6	3	-	7	13	100
1965	Rm	2 100	454	200	150	-	125	369	3 398
	%	62	13	6	4	-	4	11	100
1970	Rm	3 202	812	442	337	339	123	563	5 818
	%	55	14	8	6	6	2	9	100
1971	Rm	3 696	1 033	454	402	382	215	851	7 033
	%	53	15	6	6	5	3	12	100
1972	Rm	4 126	1 348	467	480	433	235	697	7 786
	%	53	17	6	6	6	3	9	100
1973	Rm	4 545	1 687	507	572	500	208	2 361	10 380
	%	44	16	6	6	5	2	22	100
1974	Rm	5 062	2 429	551	683	1 088	205	2 761	12 757
	%	40	19	4	5	8	1	23	100
1975	Rm	6 490	3 121	691	939	1 631	230	3 348	16 450
	%	39	19	4	6	10	1	21	100
1976	Rm	7 470	4 200	795	1 080	1 877	797	3 710	19 929
	%	37	21	4	5	9	4	20	100

TABLE 34(11)

ANNUAL PERCENTAGE INCREASE IN STOCK OF DIRECT FOREIGN INVESTMENT, 1972 - 1977, UNITED KINGDOM, UNITED STATES & FEDERAL REPUBLIC OF GERMANY

YEAR	TOTAL WORLD	SOUTH AFRICA	DEVELOPED MARKET ECONOMIES	DEVELOPING COUNTRIES
		UNITED KINGDOM *		
1972	9,0	7,5	11,2	3,1
1973	19,5	15,0	23,2	8,4
1974	16,5	21,4	18,6	9,3
1975	10,8	15,3	10,0	13,8
1976	18,8	17,4	18,9	18,4
1977	na	na	na	na
AVERAGE	14,9	15,3	16,4	10,6
		UNITED STATES		
1972	8,6	6,4	8,9	7,5
1973	12,7	13,6	16,4	2,8
1974	8,7	25,4	14,8	13,4
1975	12,7	8,3	9,4	32,4
1976	10,0	5,2	10,7	9,9
1977	9,1	7,4	7,6	16,7
AVERAGE	10,3	11,1	11,3	9,3
		FEDERAL REPUBLIC OF GERMANY		
1972	11,8	11,9	11,6	12,8
1973	21,2	13,8	22,7	15,9
1974	14,0	36,1	14,7	11,7
1975	14,2	28,4	13,9	15,5
1976	12,0	7,1	10,0	16,2
1977	10,8	8,9	10,1	13,4
AVERAGE	14,0	17,7	14,0	14,2

NOTE: * The United Kingdom figures exclude investments in oil, banking and insurance. The UK figures for 1975 and 1976 are estimates based on net capital flows.

TABLE 35(12)

FOREIGN DIRECT LIABILITIES OF SOUTH AFRICA 1973-1979
R million

	1973	1974	1975	1976	1977	1978	1979
CENTRAL GOVERNMENT AND BANKING SECTOR							
Long term	133	161	182	207	236	272	314
Short term	29	58	45	46	35	27	62
PRIVATE SECTOR							
Long term	4 727	5 310	5 740	6 369	6 759	7 307	8 036
Short term	724	1 174	1 476	1 559	1 671	2 077	1 795
TOTAL DIRECT INVESTMENT	5 613	6 703	7 443	8 181	8 701	9 683	10 207

The geographic origin and sectoral distribution of foreign investment is given in Table 36. These data are from the Second Census of Foreign Transactions, Liabilities and Assets, as published by the South African Reserve Bank in 1973, and are divided into direct and non-direct investment in the private sector. Although this classification differs from that of Clarke it is useful to compare the sectoral contributions of direct and non-direct foreign investment, (non-direct foreign investment comprising, in terms of Clarke's classification, portfolio investment and direct lending). At the end of 1973 foreign investment was most heavily concentrated in the four major sectors shown in Table 36, which collectively constituted 90,5 percent of total foreign investment. Direct investment was most significant in the Wholesale and Retail Trade, Catering and Accommodation sector, followed closely by the Manufacturing sector and the Finance, Insurance and Real Estate sector. Direct investment was less significant in the Mining and Quarrying sector. The EEC provided over 60 percent of total foreign investment, with the rest of Europe and the Americas accounting for the vast majority of the remainder. We can therefore conclude that there is a relative absence of foreign investment from the agricultural, construction, transport and service sectors and a relative concentration in the mining, manufacturing, trade and financial sectors. (Foreign direct investment is under-represented in the mining sector because of the emphasis on portfolio investment.) Additionally, almost all of the foreign investment in the private sector in South Africa originates in the industrialised nations.

TABLE 36(13)

FOREIGN INVESTMENT IN THE PRIVATE SECTOR IN SOUTH AFRICA BY GEOGRAPHIC ORIGIN AND MAJOR SECTOR, END-1973
R million and percent

	DIRECT		NON-DIRECT		TOTAL		DIRECT INVESTMENT, % OF TOTAL
	R m	%	R m	%	R m	%	
MINING & QUARRYING							
TOTAL	420	100	928	100	1 348	100	31
EEC	256	61	570	61	826	61	
REST OF EUROPE	6	1	191	21	197	15	
N & S AMERICA	157	37	112	12	269	20	
MANUFACTURING							
TOTAL	2 458	100	1 177	100	3 635	100	68
EEC	1 590	65	745	63	2 335	64	
REST OF EUROPE	213	9	117	10	330	9	
N & S AMERICA	608	25	154	13	762	21	
WHOLESALE & RETAIL TRADE, CATERING & ACCOMMODATION							
TOTAL	798	100	235	100	1 033	100	77
EEC	477	60	136	58	613	59	
REST OF EUROPE	68	9	18	8	86	8	
N & S AMERICA	234	29	33	14	267	26	
FINANCE, INSURANCE & REAL ESTATE							
TOTAL	1 489	100	789	100	2 278	100	65
EEC	1 173	79	510	65	1 683	74	
REST OF EUROPE	51	3	79	10	130	6	
N & S AMERICA	154	10	90	11	244	11	
OTHER SECTORS							
TOTAL	286	100	583	100	869	100	33
EEC	189	66	387	66	576	66	
REST OF EUROPE	19	7	115	20	134	15	
N & S AMERICA	52	18	27	5	79	9	
T O T A L	5 451		3 712		9 163		

TABLE 37[14]

VALUES OF DIRECT OUTWARD INVESTMENTS IN SOUTH AFRICA BY INDUSTRY OF SOUTH AFRICAN AFFILIATE. BOOK VALUE OF NET ASSETS ATTRIBUTABLE TO THE UK IN SOUTH AFRICA AT END-1971 AND END-1974, AND PERCENT INCREASE

	1 9 7 1		1 9 7 4		1971-74
	£ m	%	£ m	%	INCREASE PERCENT
FOOD, DRINK & TOBACCO	68,3	10,5	109,0	10,9	59,6
CHEMICALS & ALLIED INDUSTRIES	58,6	9,0	105,1	10,5	79,4
METAL MANUFACTURE	50,8	7,8	(70,3)	7,1	38,4
MECHANICAL/INSTRUMENT ENGINEERING	47,7	7,3	114,1	11,4	139,2
ELECTRICAL ENGINEERING	74,8	11,5	101,3	10,2	35,4
SHIP BUILDING	-	-	-	0,0	-
MOTOR VEHICLE MANUFACTURE	15,5	2,4	34,0	3,4	119,4
TEXTILES, LEATHER, CLOTHING & FOOTWEAR	34,1	5,2	44,4	4,5	30,2
PAPER, PRINTING & PUBLISHING	19,0	2,9	55,4	5,6	93,1
RUBBER	19,0	2,9	55,4	5,6	93,1
OTHER MANUFACTURING	57,4	8,8	110,8	11,1	93,0
TOTAL MANUFACTURING	426,2	65,4	712,2	71,4	67,1
AGRICULTURE,FORESTRY & FISHING	426,2	65,4	-	-	-
MINING & QUARRYING	75,4	11,6	90,8	9,1	20,4
CONSTRUCTION	12,9	2,0	16,3	1,6	26,4
TRANSPORT & COMMUNICATIONS (EXCLUDING SHIPPING)	4,5	0,8	(7,3)	0,7	62,2
SHIPPING	4,5	0,8	(7,3)	0,7	62,2
DISTRIBUTIVE TRADES	75,4	11,6	99,2	10,0	31,6
OTHER FINANCIAL INSTITUTIONS	15,7	2,4	24,2	2,4	54,1
PROPERTY OWNING & MANAGING	15,7	2,4	24,2	2,4	54,1
OTHER ACTIVITIES	16,0	2,5	29,5	3,0	84,4
TOTAL	651,7	100,0	997,2	100,0	53,0

NOTE: The bracketed figures are estimates based on net investment figures for 1972-74. These figures so not include oil and financial companies.

TABLE 38[15]

USA DIRECT INVESTMENT POSITION IN SOUTH AFRICA BY INDUSTRY OF SOUTH AFRICAN AFFILIATE, END-1973 AND END-1977

	1 9 7 3		1 9 7 7		1973-77
	$ m	%	$ m	%	INCREASE PERCENT
ALL INDUSTRIES	1 167	100,0	1 791	100,0	53,5
MINING & SMELTING) PETROLEUM)	137 (1972)*	13,3 (1972)*		45,9	500,0 (1972-77)*
TOTAL MANUFACTURING	501	42,9	710	39,6	41,7
FOOD PRODUCTS	69	5,9	115	6,4	66,7
CHEMICAL & ALLIED PRODUCTS	85	7,3	102	5,7	20,0
PRIMARY & FABRICATED METALS	35	3,0	53	3,0	51,4
MACHINERY	91	7,8	186	10,3	104,4
TRANSPORTATION EQUIPMENT	*		85 (1976)*	(5,1)	
OTHER MANUFACTURING	*		210 (1976)*	(12,6)	
TRANSPORT, COMMUNICATIONS AND PUBLIC UTILITIES	1	0,1	2	0,1	100,0
TRADE	113,	9,7	199	11,1	76,1
FINANCE & INSURANCE	37 (1974)*	3,6 (1974)*	-11	-0,6	
OTHER	45	3,9	70	3,9	55,6

NOTE: * The individual figures for mining and petroleum have been suppressed and are presented as a single figure. The symbol * indicates where relevant figures for that year are not available, and where the closest available annual figures have been substituted.

Direct investment figures have also been published on a more detailed sectoral level by Clarke, with respect to British and American investments in South Africa. As is often the case with statistics reproduced in the sanctions debate, these figures (Tables 37 and 38 above) would seem of doubtful accuracy indeed: for example, in Table 37 the totals do not agree with the sum of individual parts, while in Table 38 there are several unexplained omissions. Given such obvious and telling shortcomings it may be inferred from these two tables, such as they are, that British direct foreign investment is concentrated in the manufacturing sector, and American direct foreign investment is concentrated in the petroleum, manufacturing and mining sectors. These two tables are therefore in general agreement with the official Reserve Bank statistics, in respect of the sectoral distributive pattern of foreign direct investment.

In summary, then, it would appear that the total of foreign direct investment has increased in recent years at current prices, probably enough to maintain its real value. Direct investment is concentrated in the manufacturing, petroleum, mining and financial sectors, with the country of origin having a bearing on the sectoral destination of the direct investment: for example, Britain has relatively little interest in motor vehicle manufacture, whilst America has little interest in the finance and insurance sector. The most important countries by foreign investment in general, in South Africa, appear to be the United Kingdom and the United States, though Germany is rapidly increasing its commitment, followed by the rest of the EEC, and then the rest of Europe. This pattern is not very dissimilar from the trade pattern that emerged from the previous chapter.

PORTFOLIO INVESTMENT

Portfolio investment is defined by Clarke as "the purchase ofstocks and shares either of a public company or of a government or local authority, without the resultant holdings being sufficient to give a controlling interest"[16], and it therefore excludes foreign holdings of South African (Euro) bonds. Portfolio investment can be divided into stock and share holding. The former involves a commitment to make regular interest payments and to repay the loan, whereas shares involve no such commitment on the part of the issuing company, but they may give some control over the administration of the company. Shares in South African companies cannot be issued abroad, although they can be quoted and transacted abroad, but stocks (or bonds) can be issued abroad to raise foreign exchange. This latter type of transaction has been facilitated and expanded largely by the development of the 'Eurodollar' or 'Eurocurrency' markets, of which the 'Eurobond' market is an offshoot. The floating of foreign bonds is very different to the traditional type of portfolio investment and may be conveniently analysed under the heading of 'direct lending'.

In the past, portfolio investment played a significant role in financing South Africa's economic development, but in recent years the popularity of other forms of foreign investment and the increasing regulation of exchange control, by both the capital-exporting countries and South Africa (for example, South African controls on the repatriation of the proceeds of liquidation of an investment, and the dual exchange rate system) has seen a relative decline in the popularity of portfolio investment, though the dual exchange rate system is designed to foster all types of foreign investment. This trend away from portfolio holdings can be seen in Table 39, which details the foreign liabilities of South Africa under the heading of <u>non-direct</u> investment for the period 1975-79. (Figures for 1980 were not available at the time of going to press). These figures include not only <u>portfolio</u> investment, but also bonds floated abroad and direct long and short term lending. However, the figures relevant to private sector portfolio investment, as defined above, are to be found under the headings 'ordinary and other shares, nominal value', which indicates the volume of shareholding, 'share premium, reserves and undistributed profit', which records the increase in value of those shares, and 'debentures, loan stock and similar securities', which indicates the amount of foreign stock holdings. The increases in the liabilities of the public sector are primarily due to bond finance and will therefore be analysed in the next section.

Between 1975 and 1979 the nominal value of shares held by foreigners increased from R291 million to R303 million but was still less than the 1973 figure of R320 million.[18]. This means that the volume of foreign shareholding in South Africa declined between 1973 and 1979, although the value of share premium reserves and undistributed profit increased. This decline in foreign shareholding is reflected on the balance of payments under the heading 'stock exchange transactions' which records a net outflow in every year, bar 1978, since 1972[19]. Between 1975 and 1979 foreign holding of South African private sector stock decreased from R114 million to R80 million. Overall, it

TABLE 39(17)

FOREIGN LIABILITIES OF SOUTH AFRICA, NON-DIRECT INVESTMENT, 1975-1979
R million at current prices

	1975	1976	1977	1978	1979
CENTRAL GOVERNMENT & BANKING SECTOR	2 718	3 834	4 339	3 797	3 295
PUBLIC CORP'NS & LOCAL AUTHORITIES	2 442	3 233	3 054	3 611	3 827
PRIVATE SECTOR: LONG TERM:					
Ordinary & other shares, nominal value	291	288	276	296	303
Share premium reserves & undistributed profit	1 566	1 966	2 173	2 388	2 595
Debentures, loan stock & similar securities	114	105	100	90	80
Mortgages & long term loans	953	1 140	1 530	1 845	1 432
Other	112	133	119	124	122
PRIVATE SECTOR: SHORT-TERM:	824	950	1 040	1 052	1 019
T O T A L	9 020	11 649	12 631	13 203	12 673

is apparent that portfolio investment is declining in volume terms, although capital appreciation ensures that it increases in value terms, which accounts for the increase in the item 'share premium, reserves and undistributed profit'.

An examination of the distribution of portfolio investment, by area of origin, reveals that at the end of 1979 both stocks and shares were held almost exclusively by the EEC, the rest of Europe and the Americas. The South African sectoral distribution of portfolio investment, as published in the Second Census of Foreign Transactions, (which includes local authorities and public corporations as part of the private sector) shows that it is only in the 'mining and quarrying', and 'finance, insurance and real estate' sectors that portfolio investment has any significance. This is reflected in Table 40 where the sum of portfolio investment, as a proportion of total foreign investment for 1973, was 64 percent for 'mining and quarrying' and 23 percent for 'finance, insurance and real estate'. The 'manufacturing' sector was the next most significant with only 9 percent.

TABLE 40[20]

FOREIGN LIABILITIES OF THE SOUTH AFRICAN PRIVATE SECTOR BY KIND OF ECONOMIC ACTIVITY, NON-DIRECT INVESTMENT, AND TOTAL FOREIGN INVESTMENT, END-1973
R million

	AGRICULTURE, FORESTRY, & FISHING	MINING & QUARRYING	MANUFACTURE	ELECTRICITY, GAS & WATER	CONSTRUCTION	TRADE, CATERING & ACCOMMODATION	TRANSPORT, STORAGE & COMMUNICATION	FINANCE, INSURANCE & REAL ESTATE	COMMUNITY, SOCIAL & PERSONAL SERVICES	OTHER	TOTAL
<u>LONG-TERM</u>	5	909	973	303	2	80	62	718	27	46	3 125
SHARES, NOMINAL VALUE	2	145	75	-	1	14	1	82	-		320
SHARE PREMIUMS, RESERVES, UNDISTRIBUTED PROFIT	3	702	123	-	1	47	4	418	-	-	1 298
DEBENTURES, LOAN-STOCK, ETC	-	19	132	172	-	-	-	30	-	45	398
MORTGAGES & LONG-TERM LOANS	-	43	643	131	-	19	38	83	27	1	985
OTHER	-	-	-	-	-	-	19	105	-	-	124
<u>SHORT-TERM</u>-	-	19	204	29	4	155	13	71	2	90	587
TOTAL NON-DIRECT INVESTMENT	5	928	1 177	332	6	235	75	789	29	136	3 712
TOTAL FOREIGN INVESTMENT	47	1 348	3 635	333	67	1 033	184	2 278	34	204	9 173

The position with regard to portfolio investment is summarised by Clarke who writes: "historically portfolio investment has had an important role to play in financing South Africa's economic development but today this importance is considerably reduced. Portfolio investment is not a source of new investment finance and overall, in volume terms, a net disinvestment is taking place, ... Only in the mining sector does a large proportion of foreign investment still take the portfolio form, but this is also an historical legacy rather than a reflection of present tendencies in investment finance. Finally, the newly introduced dual exchange rate system is likely to lead to an acceleration in the decline of portfolio holdings as they are liquidated and the funds used for direct investment"[21]

DIRECT LENDING

According to Clarke "direct lending is like portfolio investment in that it gives the lender no control over the activities of the borrower, but unlike portfolio investment it does not involve the lending of money against the issue of stocks and shares, but involves the direct loan of funds, usually from a financial institution"[22]. Direct lending from parent companies to their overseas affiliates and subsidiaries is included within direct investment. Direct lending usually has a shorter maturity structure than portfolio investment, and is usually associated with specific short term objectives.

Direct lending takes many forms and serves many purposes. The most common is trade credit which is embodied in the present structure of most international transactions. A large and inceasing proportion of trade involves credit which is guaranteed by government bodies such as the British Export Credit Guarantee Department and the United States Export-Import Bank. Considerable though this type of credit is, it turns over quickly and is proportional to the volume of trade. This credit is handled almost exclusively by financial institutions.

Short term borrowing is undertaken by the government, public corporations and private enterprise when they need money for a limited period. Large institutions can avail themselves of foreign money markets and often do so if the terms of foreign loans are more favourable. South African financial authorities, as is the case in other countries, often have to reconcile the control of monetary policy with borrowing requirements, and may turn to foreign money markets to relieve pressure on domestic capital markets. A special case of short term borrowing involving the monetary authorities, is the securing of balance of payments finance. Such accommodation has in the past been provided mainly by foreign central banks and international organisations, but in recent years the major international banks have also entered this field.

Long term loans are usually undertaken by bond or share issues, and where the local capital market is tight or relatively underdeveloped, large investment projects can be financed by borrowing from abroad. The last decade has seen a vast increase in direct foreign lending to South Africa. This is mainly due to the borrowing of public corporations and the government. In 1972 non-direct foreign investment (portfolio investment plus direct lending) accounted for 46 percent of total foreign investment; in 1979 this figure stood at 55 percent after peaking in 1977 at 59 percent[23]. Since portfolio investment is not a source of new investment the increase in non-direct foreign liabilities must be due to the growth of direct lending. This information is conveyed in Table 39 above under the headings 'Central Government and Banking Sector', 'Public Corporations and Local Authorities' and 'Mortgages and Long-term loans'.

The increase in direct lending is in part due to the expansion of the public corporations, which since the late 1960s has underpinned the growth of the South African economy, which has a high propensity to import; hence economic growth represents a constant potential strain on the balance of payments. The public corporations, eg., ARMSCOR and SASOL, are extremely capital-intensive enterprises with enormous investment demands, which cannot be met readily by the domestic capital market. According to Clarke, "Between 1971 and 1978 the fixed capital stock of private business enterprises increased by only 33,4 percent in real terms while that of the public corporations rose by 148,6 percent"[24]. While this demand for investment funds has increased significantly the South African savings/income ratio has remained more or less static or even declined. The resulting pressure on domestic capital resources has meant that public corporations have had to borrow from foreign capital markets[25].

Despite the difficulties, (for both political and economic reasons) encountered by South African borrowers in securing foreign finance, considerable funds have been obtained, albeit at a premium. Table 41 gives a summary of the most complete data available on bank lending (including public and private bond issues) to South Africa, where the bulk of lending is to public corporations. Although the major investment projects undertaken by the public corporations, for which they borrowed abroad during the 1970s, are now well past their peak, the maturity structure of the loans and the need to finance further projects is unlikely to diminish the demand for foreign direct lending significantly.

TABLE 41[26]

IDENTIFIED BANK LOANS TO SOUTH AFRICA, 1972-1978
(US $ millions equivalent)

BORROWER	1972	1973	1974	1975	1976	1977	1978
PUBLIC CORPORATIONS:							
DEPT OF POSTS & TELEGRAPHS	13,0	16,6	-	-	-	-	-
ESCOM	123,6	68,2	130,7	226,9	409,6	9,5	103,6
INDUSTRIAL DEV'T CORP'N	-	-	-	67,0	12,1	-	-
ISCOR	47,1	396,5	249,0	385,8	99,8	51,4	69,1
SA AIRWAYS	-	-	-	29,9	-	-	-
SA BROADCASTING CORP'N	25,0	-	20,0	-	-	-	38,2
SAR & H	-	106,0	54,8	132,4	448,8	64,1	90,2
SASOL II	-	-	-	-	25,5	-	-
SOF	-	-	-	-	29,4	-	20,0
CORP'N FOR ECONOMIC DEV'T	-	-	-	-	-	-	12,2
TOTAL, PUBLIC CORPORATIONS	208,7	587,3	454,5	842,0	1 025,2	125,0	333,3
CENTRAL & LOCAL GOVERNMENT	212,6	37,0	245,0	-	306,5	149,5	311,5
PRIVATE SECTOR	121,7	-	131,0	104,5	166,9	23,0	80,2
T O T A L	543,0	624,3	830,5	946,5	1 498,6	297,5	725,0

NOTE: These figures include public and private bond issues under the heading "Bank Loans".

The South African government has borrowed abroad for reasons similar to the public corporations, namely to alleviate pressure on domestic capital markets and the balance of payments, and to increase its expenditure, particularly on defence and other strategic items such as stockpiling oil. The governemnt has, at times, been faced with the conflict of increasing its expenditure, whilst maintaining tight monetary control over the economy. These objectives may be at least temporarily reconciled by financing budget deficits from overseas. To a large extent, this particular borrowing requirement is dependent on the structure of the South African economy, and in particular the interaction of imports, exports and growth. As stated in the Reynders Report: "The South African position in this respect is such that the country will continue to require rising absolute levels of imports, particularly of intermediate and capital goods to sustain grwoth. The tendency for exports to increase too slowly in value to permit of an increase in the rate of growth necessary to provide for an increasing population, employment and rising living standards, is a particular problem in the present stage of South Africa's economic development"[27]. Thus in periods of high economic growth imports increase more rapidly than exports and unless the resulting payments gap is covered by an inflow of foreign capital, the balance of payments moves into deficit (see Table 42). The government can temporarily cover this balance of payments deficit and finance its budget deficit by borrowing abroad, but, ignoring the special role of gold in South Africa's foreign accounts, in the longer term there remains a problematic trade-off between economic growth and the level of the country's foreign reserves.

Borrowing abroad by the South African government for balance of payments purposes is reflected in Table 42 where, as is apparent during the recession years of 1975 and 1976, following the prior vigorous economic upswing, large sums were borrowed; the extent of which is indicated under the headings 'liabilities related to reserves', (which represents mainly private and central bank lending to the South African Treasury) and SDR allocations and valuation adjustments (which are essentially transactions with the IMF). As can also be seen from Table 42 South Africa has relied heavily on the IMF since 1976, although the substantial increase in the price of gold, and the revaluation of gold reserves enabled her to repay her debt commitments by the beginning of the 1980s. The item 'short term capital movements not related to reserves' may include an element of government borrowing too, as, for example: "Nedbank, a locally-owned South African banking group, raised a $200 million credit for the South African Treasury ... a sizeable chunk of the money came from American commercial banks"[28]. However, this item, like the 'central government and banking sector' item, reflects transactions in respect of purposes other than altering the level of reserves. The net annual flow of foreign expenditure of the public corporations is reflected under the item 'public corporations and local authorities'.

TABLE 42(29)

BALANCE OF PAYMENTS: SELECTED ITEMS, 1974-1981
R MILLION

	1974	1975	1976	1977	1978	1979	1980	1981
BASIC BALANCE	-237	-67	-682	708	1 335	1 946	2 222	-3 590
SHORT-TERM CAPITAL MOVEMENTS NOT RELATED TO RESERVES	17	-298	-488	-848	-810	-1 529	-1 691	755
CENTRAL GOVERNMENT & BANKING SECTOR	-113	-110	49	16	13	-22	-15	-54
PUBLIC CORPORATIONS & LOCAL AUTHORITIES	31	173	6	103	202	297	11	-208
PRIVATE SECTOR	99	-361	-543	-967	-1 025	-1 804	-1 687	1 017
CHANGE IN NET GOLD & OTHER RESERVES OWING TO BALANCE OF PAYMENTS TRANSACTIONS	-220	-365	-1 170	140	525	417	531	-2 835
LIABILITIES RELATED TO RESERVES	123	478	648	-209	-489	-401	1	1 830
SDR ALLOCATIONS & VALUATION ADJUSTMENTS	29	85	303	250	1 406	2 036	979	-543
CHANGES IN RESERVES	-68	198	-219	-99	1 442	2 052	1 511	-1 546

Analysis of the sources of bank lending, by national origin, may be extremely misleading because the funds emanate from international banks, which have access to funds from the international monetary system outside of national boundaries and jurisdiction. Thus the immediate source of a loan does not imply that the original or ultimate source is the same. For example, a bank operating from the USA may lend reserves of Eurocurrency, thus artificially inflating the USA direct lending figure. Thus, to a large degree, any attempt at specifying the national origin of funds is merely an indication of the strength of certain banks and/or currencies. Table 43 ranks lending countries according to the extent of their banks' involvement in lending to South Africa. The original source of the data is identified by Clarke (the secondary source), as a report compiled by the United Nations Centre Against

TABLE 43(30)

LOANS TO SOUTH AFRICA, 1972-1978: BANKS GROUPED BY NATIONALITY
US$ millions

NATIONALITY OF PARENT BANK	U N REPORT			CDE HANDBOOK		TOTAL	
	NO. OF BANKS	NO. OF LOANS	AMOUNT OF LOANS	NO. OF LOANS	AMOUNT OF LOANS	NO. OF LOANS	AMOUNT OF LOANS
WEST GERMANY	59	72	2 427,3	-	-	72	2 427,3
UNITED STATES	69	42	1 946,4	10	445,0	52	2 391,4
UNITED KINGDOM	42	54	2 388,3	-	-	54	2 388,3
FRANCE	31	50	1 848,0	-	-	50	1 848,0
SWITZERLAND	22	36	1 277,3	-	-	36	1 277,3
BELGIUM	14	32	1 072,4	-	-	32	1 072,4
INTERNATIONAL	22	29	1 072,0	-	-	29	1 072,0
NETHERLANDS	7	24	769,8	-	-	24	769,8
ITALY	33	24	747,1	-	-	24	747,1
CANADA	13	16	644,6	-	-	16	644,6
JAPAN	16	14	503,4	-	-	14	503,4
SOUTH AFRICA	5	12	485,0	-	-	12	485,0
NATIONALITY NOT AVAILABLE	13	13	474,8	-	-	13	474,8
AUSTRIA	4	14	456,8	-	-	14	456,8
LUXEMBOURG	4	11	368,2	-	-	11	368,2
DENMARK	5	10	353,4	-	-	10	353,4
NORWAY	7	7	261,4	-	-	7	261,4
SWEDEN	3	7	236,3	-	-	7	236,3
FINLAND	1	6	220,9	-	-	6	220,9
SPAIN	6	5	188,7	-	-	5	188,7
ISRAEL	3	3	150,0	-	-	3	150,0
AUSTRALIA	1	1	50,0	-	-	1	50,0
BAHAMAS	1	1	50,0	-	-	1	50,0
BERMUDA	1	1	25,0	-	-	1	25,0

NOTE: The dollar figures represent the total value of loans in which banks of each country participated, Because many banks of differing nationalies take part in an international loan, it is inaccurate to claim, for example, that Swiss banks made $ 1,3 billion of loans to South Africa. It can only be siad that Swiss banks were involved (to an unknown degree) in $ 1,3 billion of loans.

TABLE 44(31)

BANK LOANS TO SOUTH AFRICA, 1972-1978. TOP TWENTY LENDERS
US $ million

The following is a ranking of the top twenty parent banks identified in bank loans to South Africa, 1972-1978, according to the total dollar amount of all loans in which the parent and its subsidiaries participated. The nationality of each parent is indicated in parentheses.

	PARENT BANK	UN REPORT		CDE HANDBOOK	TOTAL
		NO. OF LOANS	AMOUNT OF LOANS	AMOUNT OF LOANS	AMOUNT OF LOANS
1.	CITICORP (US)	27	1 308,8	255,0	1 563,8
2.	MANUFACTURERS HANOVER COPR (US)	22	1 037,2	150,0	1 187,2
3.	CREDIT COMMERCIAL DE FRANCE SA (F)	32	1 158,0	-	1 158,0
4.	DEUTSCHE BANK AG (FRG)	25	1 156,8	-	1 156,8
5.	DRESDNER BANK AG (FRG)	24	1 104,2	-	1 104,2
6.	HILL SAMUEL & CO LTD (UK)	27	1 055,3	-	1 055,3
7.	UNION BANK OF SWITZERLAND (CH)	29	1 040,1	-	1 040,1
8.	COMMERZBANK AG (FRG)	30	870,9	-	870,9
9.	KREDIETBANK NV (B)	27	859,4	-	859,4
10.	WESTDEUTSCHE LANDESBANK GIRO (FRG)	22	779,8	-	779,8
11.	CREDIT LYONNAIS SA (F)	22	725,5	-	725,5
12.	SWISS CREDIT BANK (CH)	22	717,7	-	717,7
13.	MORGAN (JP) & CO INC (US)	12	679,3	12,0	691,3
14.	HAMBROS LTD (UK)	15	640,4	-	640,4
15.	ALGEMENE BANK NEDERLAND NV (N)	21	619,8	-	619,8
16.	SOCIETE GENERALE (F)	18	601,8	-	601,8
17.	AMRO BANK NV (N)	18	597,9	-	597,9
18.	BAYERISCHE VEREINSBANK (FRG)	23	581,7	-	581,7
19.	SOCIETE GENERALE DE BANQUE SA (B)	16	570,4	-	570,4
20.	BANQUE DE L'INDOCHINE (F)	17	554,3	-	554,3

NOTE: The loan amounts represent the total value of all loans in which the parent corporation and/or its subsidiaries participated. In international loans where many banks participate, it is inaccurate to claim that the loan was mande by any one of the banks listed. Thus, it cannot be said that Citicorp made $ 1,6 billion of loans but only that it was involved (to an unknown degree) in $ 1,6 billion of loans.

Apartheid. The figures refer not to the amount lent by the banks, but to the total size of loans in which the banks in question played a part. Given this, and the significant total of double-counting obviously inherent in the dollar figures, the data must be regarded with some caution. Additionally, in terms of Table 43, it is not known what figure was lent to South Africa, for example, by the 59 German banks involved in the quoted figure of 72 German loans. However, it is clear that lending to South Africa is dominated by German, American, British, French and Swiss banks. This conclusion is supported by the data in Table 44, which is drawn from the same sources, and

identifies the specific suppliers of bank finance to South Africa between 1972 and 1978. The latter table must also be regarded with some reservation, as the dollar figures represent the total value of all loans in which the parent corporation and/or its subsidiaries participated, and since with international loans it is usual for many banks to participate, it is thus inaccurate to state that any of the quoted figures were the sole responsibility of any one of the banks listed ie, there is a significant amount of double-counting present. Clarke also notes that the table "tends to understate the dominance of the leading banks since they more often act as managers of loans than the banks less heavily involved"[32].

FOREIGN INVESTMENT AND ECONOMIC GROWTH

Given the illustrated contribution of foreign investment to South Africa, the question which now arises, is whether the economic growth will be affected by the withdrawal thereof. The three crucial facets which would be affected are: the financing of investment, balance of payments requirements and the qualitative impact of foreign investment.

The first of these issues turns on whether domestic capital markets can meet the requirements of domestic investment and hence economic growth. This issue is not easy to quantify because of its long-run perspectives. Although trans-national companies dominate the direct investment figures, most of this investment is undertaken through the re-investment of their South African net earnings. The private sector is thus more or less independent of foreign capital inflow in the literal sense of the term. It is, as illustrated above, the public sector which has had to finance expansion via foreign borrowing. According to Table 41 above, the public sector borrowed abroad approximately

R3,5 billion during the period 1972-1978. Over the same period total gross domestic fixed investment under the headings 'electricity, gas and water', 'South African Railways' and 'manufacturing: other than private business enterprises' amounted to R13,3 billion[33]. This is quite a good indicator of the scale of investment of the public corporations during the period concerned, and it thus appears that between 1972 and 1978 about a quarter of the public sector's investment was financed by foreign borrowing.

However, this period was peculiar in that extensive long term public sector investment was undertaken, and this large contribution of foreign investment to gross domestic investment is indicative of short run trends rather than long term structure: were figures for foreign borrowing available for the period after 1978, the short run pattern would have changed. Such short run variations are further reflected below.

Although the foreign borrowing of public corporations in this period amounted to only asbout 7 percent of gross domestic savings (see Table 45 below), this occurred in a context where domestic capital markets were already extended. In such a situation, a 7 percent component of the demand for investable funds may be significant, particularly when it is appreciated that about two-thirds of total savings are made up of depreciation allowances and corporate saving. However, in 1977 and 1978 when the economy was growing comparatively slowly, the public corporations were able to finance their investment domestically without upsetting the local capital market. These observations are based on the data in Table 45 which also shows that the period 1977 to 1980 was characterised by a large outflow of capital in contrast with the period 1972 to 1976.

The non-availability of foreign capital to public corporations, given tight domestic capital market competition, has frequently prompted these corporations to finance capital works from internal savings, effected by means of tariff increases. Apart from the potentially deleterious effect of such a policy on resource allocation, it introduces a strong inflationary bias in the economy, something which has indeed been evident in South Africa lately, even under rather depressed economic conditions. According to the 1979-80 Budget estimate, the public sector investment requirement for the period 1979-1987 was R48,3 billion (at 1977 prices) or approximately 50 percent of gross domestic fixed investment[35]. This suggests that public sector investment is not expected to decline appreciably in the near future. On the other hand, with an intermittently declining personal saving propensity, the flow of funds to the domestic capital market seems unlikely to increase in real terms from this source. Increases in taxation and public utility rates, while representing potential sources of investable funds cause other problems as referred to above. Given, then, that the supply of investable funds, ie, savings is unlikely to increase, and that demand ie, investment is likely to remain at a high level, capital may continue to be borrowed abroad. Clarke, for example, estimated in 1980 that "South Africa will have to secure foreign funds at a rate of R2,5 billion per annum to finance long term investment"[36], though this arbitrary figure has neither been borne out in

TABLE 45[34]

FINANCING OF GROSS DOMESTIC INVESTMENT, 1972-1980.
R million at current prices

	1972	1973	1974	1975	1976	1977	1978	1979	1980
PERSONAL SAVING	1 397	1 415	1 373	2 241	1 892	2 080	1 866	2 909	3 214
CORPORATE SAVING	351	778	1 067	607	757	1 695	2 063	4 664	7 939
SAVING OF GOVERNMENT	388	934	1 180	814	502	663	1 037	1 254	2 722
DEPRECIATION	2 158	2 158	2 622	3 345	4 187	4 803	5 573	6 614	7 806
GROSS DOMESTIC SAVING	3 986	5 285	6 242	7 007	7 338	9 241	10 539	15 441	21 681
NET CAPITAL INFLOW	449	-46	899	1 926	1 110	-810	-1 370	-2 954	-2 466
CHANGE IN RESERVES	-359	98	99	-113	520	345	-42	-16	-532
GROSS DOMESTIC INVESTMENT	4 076	5 337	7 240	8 820	8 968	8 776	9 127	12 411	18 683

practice to date, and nor would borrowing on such a scale appear imminent. In addition to any long term funds which may have to be borrowed abroad, there is at least a periodic need for foreign short term borrowing to finance international trade; hence the De Kock Commission recommendation that short term borrowing from abroad should be increased[37]. However, the nature of trade, and trade credit, is such that it cannot be easily quantified, in contrast with long term debt, and it has no regular pattern, a fact which is at variance with Clarke's 1980 estimate that South Africa would have to "secure an increase in short term borrowing on a once-for-all basis of R1 billion"[38].

Foreign investment in general does not necessarily have to represent a deliberate act of either investment or borrowing, since if the current account of the balance of payments is in surplus, net foreign earnings are available for domestic investment. In the South African context a current account surplus has in the past been associated with rises in the price of gold, which means additional investable funds for the private and the public sector. Thus the demand for foreign investment depends ultimately on the balance of payments position, which is related to the country's terms of trade and, in particular, the price of gold. In 1980 Clarke claimed that: "A gold price of $300 per ounce would leave the current account in balance"[39]. Estimates of this nature will obviously vary with changing economic conditions and the data likewise, which stresses a specific problem often encountered in the calculus of economic sanctions: while potentially effective sanctions should presumably impinge on the basic fabric or structure of the (South African) economy and thus reduce its performance, the actual measures discussed are frequently of a short term nature. Consequently, there is a methodological flaw in the analysis; short term measures may be neutralised by short term counter-measures and thus render the intended policies of sanctions virtually ineffectual.

However, it is not only the quantitative financial impact of foreign investment that is important. Foreign direct investment, in particular, is extremely important in giving South Africa access to modern technology and to sophisticated managerial skills. A significant reason for this is South Africa's notoriously low productivity of both capital and labour. Thus, whilst serving to increase the physical stock of capital, foreign investment also has the function of bolstering otherwise low productivity levels. As the Economic Development Programme 1978-1987 states: "The seventies compare very unfavourably with the sixties so far as the trends in the rate of capital deepending in the economy in general are concerned ie, the economy is becoming more capital-intensive. The data also show that this trend was accompanied by the unfavourable trends in the productivity of both capital and labour. Again, it is clear that this trend was present in all but a few sectors of the economy."[40] This is further supported by Table 46 below, which shows that for the period 1970-1980 the average growth rate of the productivity of labour and capital was -1,3 percent.

Thus if access to direct foreign investment was impaired, productivity would be further reduced, via the qualitative technical and managerial impact of this investment. It is, however, no easy matter to estimate the contribution of imported technology to South Africa's economic development. An econometric study undertaken by John Suckling suggests that 60 percent of the economic growth during the years 1957 to 1972 could be ascribed to technological changes of which two-thirds was imported[42]. In contrast, local studies have ascribed a far more modest role to the qualitative determinants of economic growth in South Africa. The Mercabank publication Focus on Key Economic Issues reported that "productivity increases have traditionally played a relatively minor role in growth"[43]. This is supported by the Reynders Commission which stated that "South Africa has tended to grow largely by

TABLE 46[(41)]

CAPITAL & LABOUR PRODUCTIVITY INDICES, 1970-1980 (1970 = 100)

YEAR	LABOUR	CAPITAL	LABOUR & CAPITAL
1970	100,0	100,0	100,0
1971	101,3	97,1	99,5
1972	99,4	91,7	96,1
1973	100,4	89,3	95,2
1974	104,9	89,9	97,4
1975	103,8	85,1	94,9
1976	102,3	81,3	92,2
1977	99,7	77,7	88,8
1978	99,2	76,3	87,9
1979	100,3	76,3	87,8
1980	104,6	78,9	89,8
AVERAGE GROWTH RATE	0,1%	-2,7%	-1,3%

utilising more inputs with relatively little attention being devoted to the more efficient use of such inputs". In respect of specifically manufacturing industry, a further issue of the above Mercabank series stated: "The inputs of factors of production (labour and capital) increased at an average annual rate of 42 percent over the whole of the period from 1950 onwards, whilst output per unit of factor input increased by only 1,9 percent per annum on average. Factor inputs were, therefore, responsible for more than two-thirds of the expansion in manufacturing"[45]. The Mercabank findings are based on research by Professor L J Fourie, who has also been cited to the effect that "productivity improvements appear to contribute only some 35 percent to economic growth at the best of times, while increases in the crude stock of labour and capital contribute as much as 37 percent and 28 percent respectively"[46].

However, a 1973 study found that 74 percent of manufacturing firms interviewed claimed that at least 90 percent of their technology was of foreign origin.[47]. This technology is channelled through trans-national companies to their South African affiliates: "between 65 and 80 percent of royalty payments from South Africa to British companies are from 'related concerns'. United States figures show royalty receips from South Africa of $49 million in 1977, of which half was due from manufacturing concerns, and the bulk of the rest from mining"[48]. Moreover, foreign direct investment not only provides technology, but also skilled manpower to direct its implementation. One of the most severe constrains on growth at present is the lack of skilled manpower. "It is evident that South Africa's economic progress is currently being limited, not so much by as shortage of capital, but by a shortage of skills and knowledge"[49].

One should not, however, make the mistake of viewing foreign production techniques as an unmixed blessing in the South African context. Imported technology is often of a capital-intensive kind, more suited, say, to large European and American markets than the South African economy with its comparatively large supply of labour and small domestic demand. Local firms which implement technology channelled to them by their international parent companies, may therefore, in some instances, be using sub-optimal production methods. Perhaps, somewhat paradoxically, less relaince on foreign know-how may actually serve to increase productivity in South Africa.

DISINVESTMENT

The main determinants of foreign investment, or of any private investment, are profit and risk. The literature on why South Africa has attracted substantial foreign capital stresses the high returns offered on investment in juxtaposition with high risk. The latter concept is nebulous, though relevant, and measurement of returns depends critically on the nature of the statistics used. The most comprehensive study of investment in South Africa, conducted by S H Frankel, shows that returns on foreign investment in South African gold mines between 1887 and 1965 amounted to only 5,2 percent per annum. This is not exceptional when compared with other national rates of return on investment, although comparisons over time and space of risk and profit are subjective, and may overlook important normative variables.

As far as present sanctions against investment are concerned the, only significant moves to date have been made by Sweden and Denmark[50]. Swedish government policy is that Swedish firms should "limit" their activities in South Africa. In a report of the Dagens Nyheter in August 1978, 8 Swedish firms with investments in South Africa were consulted, and none were willing to "limit" their activities voluntarily. Consequently, legislation was passed prohibiting direct investment and capital export to South Africa. However, exemption will be granted from these restrictions "should Swedish jobs be at risk" (in Sweden) or "if the firm were to experience unreasonable losses"[51]. This illustrates the reluctance of sanctioners to accept the cost of sanctions. The result is that potentially effective measures tend to become symbolic actions when self-interest is at stake. The Holland Committee on South Africa, a strongly pro-sanctions group, has also censured Sweden for not abiding by its legislative ban on investment[52]. OAU members have banned investment in South Africa but they have, effectively speaking, no investment in South Africa; their actions are essentially symbolic. The failure to disinvest is, in part, due to the immense problems involved in regulating foreign investment and financial flows. No strong unilateral or multilateral enforcement agency exists for policing sanctions. The legal complications may be enormous and evasion relatively easy. At the same time, measures against investment do imply higher costs to the potential investor and may thus be a deterrent, although the Report of the Study Commission on US Policy toward South Africa (Rockefeller Report) has recommended against disinvestment at present[53].

As far as sanctions against direct investment are concerned, several options exist. New investment can be restricted by law, but this would have little impact, because of the relatively limited role that newly invested foreign capital plays in South Africa today. More significant measures would be those taken to accelerate the outflow of funds from South Africa, by requiring the repatriation of all dividends, interest and branch profits, but such action too would be limited, because the South African government may well retailate in kind, and prevent the remission of such payments. If thus caught between Scylla and Charybdis, parent companies may well be pursuaded to run down the operations of their affiliates, which would then deny South Africa access to such foreign investment. A second possible disinvestment measure amounts to selling off equity in, and assets of, affiliates and branches: done unilaterally, this move would have no impact on South Africa if the buyer were to be another trans-national company; done multilaterally, this implies selling to South Africans, presumably on a strong buyer's market. Thus trans-nationals would have to face capital losses, and may, moreover, experience real problems in repatriating their capital, and a change of ownership, for example, to South Africa, need not cause any fundamental harm to the economy. The loss of funds via the balance of payments would be compensated for by the discontinuation of future remittances of interest, dividends and profits abroad.

The most likely and realistic instrument of disinvestment would be to make investment considerably less attractive. This could be done by ending the double taxation agreements between investing countries and South Africa; by withdrawing official and/or implicit support for trade and investment; and also by preventing the assignment of patents and licences to South Africa or the renewal of existing licencing agreements (though the latter could easily be abbrogated by South Africans, and the former circumvented unless technology-embodied capital imports were stopped).

Trade credit could be curtailed if the backing of official state bodies was withdrawn as is, for example, from time to time the case with the US Export-Import Bank, leaving foreigners to rely on their own resources, and hence increasing the risk factor, assuming that substitute trade credit is not available from South Africa itself. However, commercial bank lending raises more serious problems than does short term trade credit because of the extent to which international banks are beyond national regulation. The problem is not so much in legislating against lending to South Africa, as in identifying it. Banks are required to make disclosures to their respective national authorities, but the extent of these disclosures depends on the co-operation of the banks, and much of the lending is financed from funds outside of any national exchange controls. Although a few banks have refused to lend funds for government or quasi-government purposes, such as balance of payments requirements, this has had little effect as other banks have lent the money. Thus successful sanctions on bank lending are contingent on bank co-operation and on multilateral enforcement.

Another form of international direct lending is that undertaken through international agencies, such as the IMF, membership of which gives South Africa access to a lender of last resort. South Africa is unlikely to be expelled from the IMF at present and the Fund is not, at least in principle, run along political lines. Expulsion of South Africa would stop further borrowing from the IMF, but would have serious political implications for its future. South Africa recently secured a R1,2 billion loan from the IMF, despite strong political pressure to the contrary[54].

Quantitative estimates of the effect, on South Africa, of sanctions on foreign investment (or for that matter, sanctions in general), are hazardous. However, all realistic indicators suggest that sanctions would seriously impinge on the growth of the South African economy. The Economic Adivsor to the South African Prime Minister, Dr Simon Brand, has stated that an absence of foreign investment puts an unacceptably low ceiling on possible growth rates[55]. The official <u>Economic Development Programme 1978-1987</u>, has postulated three average annual growth rate scenarios for the stated period; 3,6 percent, 4,5 percent and 5,0 percent. According to this programme a growth rate of 3,6 percent will result in just more than a doubling of total unemployment from 10,6 percent in 1977 to 21,9 percent in 1987. A growth rate of 4,5 percent will see total unemployment of 15,0 percent in 1987, and even the highest postulated growth rate, 5,0 percent, will leave more total unemployment, 11,5 percent, than in 1977. The Unit for Futures Research at Stellenbosch University postulates a "normal growth figure" of about 4,8 percent[57]. The latter study assumes a substantial injection of investment from abroad whilst the Economic Development Programme makes no such provision. The chairman of a leading South Africa banking group, Nedbank, Dr Frans Cronje, maintains that the economy can continue to grow at something like past rates (ie, average 4,5 percent) without foreign capital, but that rates of 7 percent to 8 percent are required to absorb yearly increases in the labour market and reduce unemployment[58].

As South Africa's annual population increase is some 3 percent per annum, the economy must employ between 200 000 and 220 000 new entrants into the labour market annually. This implies that an economic growth rate of 3 percent per annum would result in no per capita increase in standards of living. Employment of these work seekers may, then, be contingent on access to foreign capital. "In the end, therefore, withdrawal of international investment is basically a growth-related threat"[59]. Some such consequences have been given empirical treatment by Arnt Spandau via the use of the same input-output model as referred to above in Chapter 4.[60] Taking 1976 as his base year Spandau assumed that firstly a 20 percent, and latterly a 50 percent reduction in long term capital movement took place. The results by sector in terms of Gross Domestic Product, unemployment and disposable income are reproduced below in Tables 47 and 48.

These results, though useful indicators in themselves, make no predictions as to the long term growth path that would result. Spandau's conclusion in this connection appears somewhat glib and superficial: "There is little doubt that even a 100 percent investment boycott would not have dealt South Africa a death blow. To be sure, the unemployment rate would have increased drastically, personal disposable incomes would have dropped, and the confidence in the future of the country's economy would have suffered severe damage. But there is no doubt that the country would have embarked upon suitable remedial measures"[61]. A seemingly more realistic view of sanctions is that put forward by Andre Hamersma: "Sanctions which lead to a stagnant economy are successful sanctions"[62]. Remedial measures may be beyond the drawing board, but it is foolish to believe that autarky is desirable or feasible. However, a somewhat surprising recent research finding in this respect, is Dr B P Groenewald's study of past foreign investment in South Africa, which shows that "South Africa attracted no additional foreign capital for investment purposes in the past 22 years"[63].

As matters stand at present, it is not feasible to anticipate who may apply what sanctions under which conditions; even if the principle of sanctions were not in doubt, their scope, nature and effectiveness would still be uncertain; even if the sanctions were known in quantitative terms, their resulting impact on the domestic economy is not accurately predictable. In brief, we lack an adequate macro-economic model of predictive power, partly because of uncertainty and lack of information in general, and partly because the parameters of such a model are not known _a priori_.

TABLE 47 (64)

CONSEQUENCES OF AN HYPOTHETICAL INVESTMENT BOYCOTT ON GROSS DOMESTIC PRODUCT, EMPLOYMENT AND DISPOSABLE INCOMES
ASSUMPTION : 20 % of LONG-TERM FOREIGN INVESTMENTS IN 1976 ARE BOYCOTTED

ECONOMIC SECTOR	20% OF FOREIGN INVESTMENTS (1976) R m	DECREASE IN G D P R m	INCREASE IN UNEMPLOYMENT (NUMBER OF PERSONS)					DECREASE IN DISPOSABLE INCOMES R MILLION				
			WHITES	COLOUREDS	ASIANS	BLACKS	TOTAL	WHITES	COLOUREDS	ASIANS	BLACKS	TOTAL
METAL INDUSTRY	30	27	2 280	540	90	4 830	7 740	13,0	1,0	0,21	6,1	20,51
FURNITURE	7	6	371	329	98	889	1 687	2,1	0,6	0,23	1,1	4,03
RUBBER PRODUCTS	8	6	344	112	48	688	1 192	2,0	0,2	0,11	0,9	3,21
NON-METALLIC MINERAL PRODUCTS	13	10	611	195	39	1 248	2 093	3,5	0,4	0,09	1,6	5,59
IRON & STEEL INDUSTRY	26	19	1 404	130	52	2 210	3 796	8,1	0,2	0,12	2,8	11,22
NON-FERROUS METAL INDUSTRY	10	8	270	50	30	570	920	1,6	0,1	0,07	0,7	2,47
AGRICULTURAL MACHINERY	4	3	704	44	8	380	1 136	4,1	0,1	0,01	0,5	4,71
ELECTRICAL MACHINERY	8	5	512	144	24	672	1 352	2,9	0,3	0,06	0,8	4,06
RADIO & TELEVISION	11	8	583	176	55	715	1 529	3,4	0,3	0,13	0,9	4,73
MOTOR VEHICLE INDUSTRY	19	9	722	342	38	855	1 957	4,2	0,6	0,09	1,1	5,99
RAILWAY EQUIPMENT	4	3	204	28	8	292	532	1,2	0,1	0,02	0,4	1,72
CONSTRUCTION	59	51	3 363	1 829	295	7 375	12 862	19,5	3,4	0,70	9,3	32,90
T O T A L	199	155	11 368	3 919	785	20 724	36 796	65,8	7,3	1,84	26,2	101,14

TABLE 48(65)

CONSEQUENCES OF AN HYPOTHETICAL INVESTMENT BOYCOTT ON GROSS DOMESTIC PRODUCT, EMPLOYMENT AND DISPOSABLE INCOMES
ASSUMPTION : 50 % of LONG-TERM FOREIGN INVESTMENTS IN 1976 ARE BOYCOTTED

ECONOMIC SECTOR	50% OF FOREIGN INVESTMENTS (1976) R m	DECREASE IN G D P R m	INCREASE IN UNEMPLOYMENT (NUMBER OF PERSONS)					DECREASE IN DISPOSABLE INCOMES R MILLION				
			WHITES	COLOUREDS	ASIANS	BLACKS	TOTAL	WHITES	COLOUREDS	ASIANS	BLACKS	TOTAL
METAL INDUSTRY	74	61	5 624	1 332	222	11 914	19 092	32,6	2,5	0,5	15,1	50,7
FURNITURE	17	14	901	799	238	1 159	4 097	5,2	1,5	0,6	2,7	10,0
RUBBER PRODUCTS	19	14	817	266	114	1 634	2 831	4,7	0,5	0,3	2,1	7,6
NON-METALLIC MINERAL PRODUCTS	33	26	1 551	495	99	3 168	5 313	9,0	0,9	0,2	4,0	14,1
IRON & STEEL INDUSTRY	65	48	3 510	325	130	5 525	9 490	20,4	0,6	0,3	7,0	28,3
NON-FERROUS METAL INDUSTRY	23	19	621	115	69	1 311	2 116	3,6	0,2	0,2	1,7	5,7
AGRICULTURAL MACHINERY	8	6	512	88	16	760	1 376	3,0	0,2	-	0,9	4,1
ELECTRICAL MACHINERY	21	14	1 344	378	63	1 764	3 549	7,8	0,7	0,2	2,2	10,9
RADIO & TELEVISION	28	20	1 484	448	140	1 820	3 892	8,6	0,8	0,3	2,3	12,0
MOTOR VEHICLE INDUSTRY	48	23	1 824	864	96	2 160	4 944	10,6	1,6	0,2	2,7	15,1
RAILWAY EQUIPMENT	13	11	663	91	26	949	1 729	3,8	0,2	0,1	1,2	5,3
CONSTRUCTION	149	130	8 493	4 619	745	18 625	32 482	49,2	8,6	1,8	23,6	83,2
T O T A L	498	386	27 344	9 820	1 958	51 789	90 911	158,5	18,3	4,7	65,5	247,0

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CHAPTER VII

SANCTIONS AND SOUTHERN AFRICA

TRADE

Historically links within the Southern African region have been given concrete form by the Southern African Customs Union (1910)[1], by which the former High Commission Territories, Botswana, Lesotho and Swaziland (BLS), were incorporated along with South Africa in a wider customs area, and the Rand Monetary Area (1974) by which the South African monetary authorities have certain joint responsibilities with the monetary authorities of Lesotho and Swaziland[2]. In addition to these institutions, two further more ambitious organisations are in embryonic form; the South African sponsored Constellation of Southern African States (CONSAS), and the Black African promoted Southern African Development Co-ordination Conference (SADCC)[3]. The latter two organisations are an outgrowth of the general conflict or trade-off in the region between economic and political self-determination.

Broadly speaking, four groups which have an interest in the case of economic sanctions and South Africa in the regional context, can be identified; namely, commentators such as the United Nations Organisation and the Organisation of African Unity, who have little or no economic interest at stake; Western trading partners who have varying degrees of economic and political advantage at risk; Black Southern African states who have a great deal of political and economic gain at stake; and lastly South Africa, for whom the prospect of sanctions obviously is a matter of great political and economic concern. In particular, the Black Southern African States are faced with a fundamental choice between political will and economic welfare, as they have, with the exception of South Africa, the most interest in resolving the political issue of apartheid, whilst similtaneously remaining "economically dependent" on South Africa. In the literature the term "economic dependence" is often used loosely to mean "potential vulnerability"; however, trade or exchange implies interdependence. Though this interdependence in Southern Africa may be disproportionate, if trade between Black Africa and the Republic were impeded all parties would experience a welfare loss; economic self-sufficiency in any context where it leads to a lower degree of specialisation is undesirable, as it results in a lower standard of living.

Despite the wishful thinking of many commentators in respect of applying sanctions on South Africa, there does remain a basic choice within the region (from which the commentators are usually far removed) between political will and economic welfare, which will have to be resolved before any proposed sanctions campaign gets off the ground. This "fact of life" is even tacitly recognised in some of the pro-sanctions literature, for example, the study undertaken by the International University Exchange Fund includes no less than 5 chapters out of a total of 12, on matters relating to the regional perspective.

The whole region, or the Southern African sub-continent, is linked economically and centres on South Africa; in Southern Africa all roads lead to the Witwatersrand. The economic interdependence is pervasive, encompassing such diverse aspects of the economic framework as infrastructure, technology, trade, finance and productive factors. Those Southern or Central African nations which are thus "dependent" in varying degrees on the South African economy include Zaire, Tanzania, Malawi, Zambia, Zimbabwe, Mozambique, Botswana, Swaziland and Lesotho as well as Seychelles and Mauritius. Namibia, whose political status is at present in a state of flux, falls into the same pattern. In the context of this chapter, the economic linkages between these countries and South Africa are examined, particularly in relation to the issue of economic sanctions on South Africa.

In analysing South Africa's links with the sub-continent it is difficult to decide whether, or exactly when, the primary purpose of these links is political or economic[4]. The principal channel for South African relations with Black Africa is provided by trade. It is no secret that the South African government hopes to derive at least some political advantage from such trade links, and this consideration also applies to regional economic ties in general. Some commentators are of the opinion that South African trade with Black Africa is unimportant; for example, as early as 1944 Professor Burrows sarcastically described South Africa's position vis-a-vis the rest of the continent thus: "Unfortunately South Africa seems to be interested in neighbouring territories mainly as potential customers. A few indefatigible optimists even look on Africa as a vast hinterland crying out for the Union's industrial products and anxious to pour its wealth into her bilingual lap"[5]. This viewpoint is supported by a study of the Economist Intelligence Unit which states: "The prospects of vastly increased trade with Africa ... have been widely exaggerated. Most of the countries known to have shown an interest with trade in South Africa are both small and bankrupt. Given the effects of international increase in the price of oil and the effects of the long droughts on the economies of many of the sub-Saharan African countries, the prospect of significant markets in Africa is a chimera"[6].

These quotations, however, do not mean that such trade links are simply worthless from the South African point of view. Though Africa lagged far behind Europe, the Americas and Asia, in 1980, in terms of South Africa's continental trading partners (see Table 4), taking only 5,5 percent of her total exports and providing only 1,6 percent of total imports, this trade was worth more than one billion rand, and exports to Africa in particular have exhibited strong growth trends in recent years. This total trade figure also hides the important sectoral breakdown particularly of manufactured products. As noted in Chapter V above, South Africa's further industrialisation is being hampered by limits to market size, and her trade with Africa may extend the market and, moreover, South Africa maintains a balance of payments surplus with Black Africa which is a valuable source of foreign exchange. Obviously this trade has growth potential albeit clouded by economic as well as political factors. Generally speaking, the advocacy of closer regional co-operation rests on the notion that increased liberalisation of trade is beneficial. "It is generally accepted that greater freedom as well as co-operation in respect of intra-regional mobility of capital, labour, technology and infrastructural services are bound to enhance the economic well-being of all the countries concerned"[7]. This notion of a free trade area leading to greater specialisation and division of labour is hardly novel, but in a Southern African context this concept was developed in the 1960s by academics at the University of Pretoria[8], though it arguably existed before[9].

The value of South Africa's total imports and exports on a geographic basis in 1980 was shown in Table 5 in Chapter IV. Although no figures in respect of trade with individual African nations are at present published it appears that 1,6 percent of South Africa's import trade and 5,5 percent of her export trade took place with the rest of the African continent (these figures do not include the value of trade within the Southern African Customs Union), though some observers claim that the true trade figures in this context may be twice as high as the published figures[10]. These figures are reflected in Table 49 below which sets out South Africa's exports to Africa (according to the Brussels Nomenclature) and the percentage contribution of these exports to total exports in each category.

TABLE 49(11)

SOUTH AFRICAN EXPORTS TO AFRICA: 1980
R THOUSAND

COMMODITY GROUPS	EXPORTS TO AFRICA	EXPORTS TO AFRICA AS % OF TOTAL EXPORTS PER GROUP
1. ANIMALS & ANIMAL PRODUCTS	56 444	30,4
2. VEGETABLE PRODUCTS	253 499	31,2
3. ANIMAL & VEGETABLE FATS & OILS	8 485	23,0
4. PREPARED FOODSTUFFS	35 266	4,9
5. MINERAL PRODUCTS	39 337	2,5
6. CHEMICALS & CHEMICAL PRODUCTS	125 766	32,2
7. PLASTICS, RESINS & RUBBER PRODUCTS	43 946	58,1
8. HIDES, SKINS & LEATHER	1 104	0,8
9. WOOD & WOOD PRODUCTS	9 265	17,2
10. PULP, PAPER & PAPERBOARD	34 145	19,1
11. TEXTILES	32 239	9,0
12. FOOTWEAR & MILLINERY	3 511	20,7
13. NON-METALLIC MINERAL PRODUCTS	23 341	42,1
14. GEMS & JEWELLERY	3 940	0,1
15. BASE METALS & METAL PRODUCTS	150 771	9,5
16. MACHINERY	167 413	63,5
17. VEHICLES & TRANSPORT EQUIPMENT	86 931	65,9
18. OPTICAL & OTHER INSTRUMENTS	10 019	41,2
19. MISC. MANUFACTURED PRODUCTS	3 738	13,8
20. WORKS OF ART, COLLECTORS' PIECES	42	0,6
21. UNCLASSIFIED	8 829	-
TOTAL	1 098 033	5,5

From the above table it can be seen that in 1980 exports to Africa of plastics, resins and rubber products (group 7), machinery (group 16) and transport equipment (group 17) constituted over 50 percent of the value of total exports in these three groups. In several other groups too, the value of exports to the rest of Africa was highly significant. The comparative overall African export figure of only 5,5 percent was mainly due to the small figures in groups 14 and 21 - and it is of course these two categories which feature most prominently in South Africa's aggregate export trade (see Chapter IV, Table 4). The significance of exports to Africa in the categories identified above, is that with rapid economic growth a balance of trade deficit results because of a lack of manufactured exports. If manufacturing is going to be an important cause of economic growth in South Africa, then, this sector must in the long run also earn enough foreign exchange to pay for its capital input from abroad. Therefore, exports of manufactured goods to Africa have an important role to play if the present imbalance in South Africa's export trade is to be redressed. Moreover, apart from factors such as technology and skills one of the major drawbacks to import substitution in the area of intermediate and capital goods is market size, and exports to Africa will make possible economies of scale and the profitable production of such goods. Although Burgess[12] argues that the limited size of the African market makes the hope of economies of scale unrealistic, the volume of manufactured exports is significant. However, if the South African non-white domestic market expands sufficiently this may in itself initiate the necessary economies of scale, which would reduce the need to develop export markets, and incidentally render South Africa less vulnerable to sanctions in general.

Although comparatively modest in scope, the trade between South Africa and other African states is mutually beneficial. Most African countries could admittedly obtain manufactured goods from sources other than South Africa without great physical dislocation, but they would be relatively more expensive, which for poor societies would represent a major economic problem. Likewise it may be argued that sales to the rest of Africa represent a relatively smaller, possibly "insignificant", portion of the total value of output of even the largest exporters in their respective groups as discussed above. Available statistics for 1980 show that for the four main export groups (see Table 49) namely, 6, 7, 16 and 17, for example export sales amounted to 3,7 percent, 1,8 percent, 4,9 percent and 3,0 percent respectively, of the value of domestic sales[13]. However, from the perspective of growth potential, this trade may be of considerable significance to the industries concerned, even apart from the country's foreign exchange need as such. Economic sanctions within a purely African context are therefore not a mere academic matter, but affect existing and potential economic growth and welfare on both sides.

Whilst it may not be imperative for South Africa to continue trading with

Black Africa, such trade is for the latter an issue of great economic importance under the present regional structure. This naturally means that many of the Republic's neighbours are unequal trading partners who are themselves vulnerable to economic sanctions on South Africa in two different ways. International sanctions, given existing trade links, cannot simply stop at South Africa's borders but are bound to spill over into her neighbouring territories. At the same time, South Africa has an obvious capacity to "retaliate" against her neighbours independently; at least, such an inference may possibly be drawn from a statement by R F Botha, South Africa's present Foreign Minister, that the Republic "was not without the power to retaliate" and that "other countries will suffer more than we do"[14].

The major portion of South Africa's African trade is conducted with her immediate neighbours and little of it passes beyond the Zambesi[15]. The extent of this trade follows closely the political developments in Africa, particularly Central Africa. Starting in the early years of the Central African Federation, African trade with South Africa declined in absolute terms due to protection against South African imports. This trade pattern was reversed by such political factors as the break-up of the Central African Federation in 1963 and the declaration of UDI in Rhodesia in 1965. Burgess estimates that trade between Rhodesia and South Africa more than doubled during the period sanctions were applied on Rhodesia[16], though largely at the expense of other African markets, especially that of Zambia. Zimbabwe's attainment of legal independence in 1980 has again altered the political and economic patterns within the region. The admittance of Zimbabwe into the Organisation of African Unity (OAU) has, for example, revitalised hopes of Black African leaders that they can form an economic grouping independent of South Africa. This added impetus has led to a number of meetings of the SADCC, the objectives of which are to map out a strategy for the viable reduction of economic ties with South Africa, while expanding Black African intra-regional economic linkages[17].

The political and economic relationship between Black Africa and South Africa is fraught with ambiguity. Botswana, Lesotho and Swaziland, the BLS countries, could not hope to boycott South Africa effectively. According to available statistics some 90 percent of their imports, including 50 percent of their food, come from South Africa[18]. Moreover, they form part of the Rand Monetary Area and are inescapably dependent on South African fiscal and monetary policies. The Republic was also the second largest source of Zambian imports in 1980, supplying 75 million kwacha's worth[19]. This was a significant increase over average annual imports from South Africa during the preceding years[20]. South Africa is the principal source of Malawian imports too, and was the source of 37 percent of the latter's total imports in 1977[21]. Mozambique is in an analagous trade position since 25 percent of her imports from major trading partners in 1977 were from South Africa, the major source of her imports[22]. Intra-regional SADCC trade is, on the other hand, statistically negligible[23], and significant restructuring of the present trade pattern will have to be undertaken if the SADCC group is to be economically effective.

In addition to exporting the above identified products to her so-called "natural market" ie, Africa, South Africa is a most important source of staple foods. This trade illustrates clearly the contrary nature of political and economic links between South Africa and the rest of the continent. A great deal of the Republic's food exports are not reflected in published statistics, however, in some respects, this trade is more significant than that of manufactured products. In the last two decades 39 of 48 countries in Africa have had declines in per capita food production.[24]. The reasons for this are not difficult to find; rapid population growth, limited husbanding of natural resources; administrative ineptitude and, inter alia, the application of inappropriate policies. This situation contrasts sharply with that prevailing in South Africa where agricultural output has more than matched population increase and output has been available for export.

Considering the present dependence of many Black African countries on South African maize supplies (the staple food in the region) it seems unlikely that they would be able to effectively boycott South Africa (see Table 50). In terms of OAU resolutions they are not, theoretically, even supposed to be trading with South Africa at present. It is likely that, as at present, Black Africa would pay only lip service to any purported sanctions campaign. Although it may be that pro-South African literature tends to over-emphasise the dependence of Black Africa on the Republic for food supplies[25], with a veil of secrecy often drawn over such trade for quasi-ideological reasons, the true picture may only be revealed if all food exports were to be halted.

In addition to maize exports, other foodstuffs are also part of this trade pattern. In 1976/77, for instance, Black states purchased 29 200 tons of wheat, 2 300 tons of oats and 161 200 cartons of eggs (each containing 30

TABLE 50[26]

SOUTH AFRICAN MAIZE EXPORTS TO AFRICAN COUNTRIES
1969/70 TO 1980/81
(TONS)

YEAR	BOTSWANA, LESOTHO AND SWAZILAND	OTHER AFRICAN COUNTRIES
1969/1970	104 000	37 185
1970/1971	202 000	166 098
1971/1972	70 000	45 598
1972/1973	83 000	8 311
1973/1974	139 000	18 844
1974/1975	60 000	70 916
1975/1976	73 000	24 783
1976/1977	131 000	29 922
1977/1978	171 000	-
1978/1979	248 000	-
1979/1980	250 000	-
1980/1981	347 000	-

dozen)[27]. South Africa also ships fresh fruit to West Africa and rails or flies canned and fresh foods to Central Africa. Moreover, it is said that South Africa trades with at least 48 African countries[28].

The present position is still, then, one of fairly close links although the emphasis given to these links may vary according to one's particular or geographic or political viewpoint. The South African view may be said to be represented by the publication Growth (of the South African government Department of Co-operation and Development) an excerpt from which is reproduced below at some length:

> Recently food has become one of South Africa's most important exports to African states. Where, in 1975, Africa took only 6 percent of South African agricultural exports, by 1979 this figure had risen to 12 percent and is currently in the vicinity of 20 percent. Indeed, last year the net

export of agricultural products and raw materials of agricultural origin from South Africa to other African countries doubled.

"Ironically, this boost in South African food exports comes at the very time when neighbouring black states are trying to lessen their dependence on South Africa. The reasons for this are not hard to find.

"Food shortages in Africa are becoming painful as indicated in the case of Tanzania. (President Julius Nyerere of Tanzania in a shock announcement earlier this year, said that unless good rains came this season between six and eight million Tanzanians in the Lake Victoria Zone would face famine in 1982) ... And few African countries could afford to meet the shortfall in full because of the heavy transport costs from distant supplier countries. In the case of sub-Equatorial Africa, South Africa is by far the closest and cheapest source of such commodities as maize and wheat. In addition, South African transport services have a reputation for being highly efficient, especially in emergency food situations. As far as maize is concerned the sun-dried South African product is preferred to the American machine-dried varieties.

"These factors have led to even die-hard opponents of Pretoria making concessions to their ideological consciences and joining in the queue for emergency food supplies from South Africa. Thus President Hastings Banda of Malawi, who has long traded openly with South Africa on the basis that it is more important to have food in Malawian villages than to conduct a political vendetta against South Africa at the United Nations, is being joined by neighbours such as President Kenneth Kaunda of Zambia and President Nyerere.

"Nyerere had admitted that because of the serious impact of the drought on Tanzania he is now prepared to suspend his government's trade boycott of South Africa and buy food from that country. No detailed statistics are ever published on South Africa's trade with Black Africa but one estimate is that in the season ending in April last year (1980) something like 800 000 tons of maize, about 76 percent of it yellow maize, could have been sent from South Africa to other countries in Africa ... Among the countries known to have substantial quantities ... are Zambia (around 250 000 tons) and Mozambique (about 150 000 tons). Moreover, Kenya was said to be taking 200 000 tons of South African grain last year.

"In the same period, 60 000 tons of the South African Wheat Board's surplus of 183 000 tons went to Africa. About 45 000 tons of this was railed to Mozambique and the rest found its way to Malawi, Zambia and Zaire."[29]

From the South African Government point of view, this may actually represent a new policy argument: apart from the Cape sea route and its mineral supplies, South Africa's significance to the world at large is now evidently also defined in terms of her food exporting capacity.

TRANSPORT

We have so far concentrated our attention on the magnitude and direction of trade between South Africa and the rest of Africa, and now this perspective must be expanded to include infrastructural links between these trading partners. However, several aspects of the regional economy interact and it is important to remember that watertight compartments such as trade and infrastructure per se do not exist. This feature is most apparent in the transport sector as South Africa is at present the entrepôt of the sub-continent. Of the Black African nations within South Africa's economic orbit only Mozambique (with the exception of Naminia) has a coastline. The remainder are landlocked and are therefore denied direct access to major trade and shipping routes and services. Mozambique has three ports of some potential in Maputo, Beira and Nacala, though the latter two are at present barely servicable. South Africa can on the other hand offer major port facilities at Richards Bay, Durban, East London, Port Elizabeth, Cape Town, Saldanha Bay and Walvis Bay. Moreover, the Mozambique major port of Maputo is only kept servicable with South African expertise and capital. Thus, the Republic has an effective monopoly of port facilities for some 8 000 kilometers of coastline surrounding the southern portion of Africa. Many of the imports and exports of Black Africa require specialised handling facilities which are only available at South African ports; for example, maize, metallic raw materials and oil.

Plans by the SADCC group envisage the re-routing of Black African imports and exports through Mozambique. However, this plan is contingent on large new capital injections in Mozambique ports and the re-building of the regional transport routes. It is doubtful whether the Mozambique ports will be able to operate, in the foreseeable future, independently of South African expertise, at the capacity levels necessary to service even the modest needs of the SADCC group. The present Black African infrastructure is also not geared to the movement of goods through Mozambique ports and before such re-routing is possible, major, probably uneconomic, capital expenditure is required[30]. A parallel may be drawn here with Zambian attempts during the 1970s to disengage from her southern trade links, as the consequent Zambian use of the Benguela and Tanzam trade routes proved uneconomic. It would appear, then, that in the near future South Africa's neighbours remain dependent on her port facilities for their economic welfare.

In the event of an effective Black African boycott, South African ports are not likely to be affected on the whole, as the proportion of this trade to the total business handled by South African ports is inconsiderable, and in times of rapid economic growth the loss of this trade may in fact be welcomed, as port and rail facilities become congested. The latter feature was in part responsible for the expansion of Richards Bay, Durban, Cape Town and Saldanha Bay in the 1970s. On the other hand South Africa, and in particular the Transvaal mines, continue to use the Mozambique port of Maputo to export bulk materials. The eventuality of losing Maputo for South African exports appears to have been foreseen by South African Transport Services (SATS), who operate South African ports; this is partly the reason for the construction and expansion of Richards Bay, which is equipped to replace Maputo should an effective boycott ensue. At present it appears that many exporters are switching from Maputo to Richards Bay for purely economic reasons, and there seems little likelihood of Maputo being closed to South Africa in the near future, mainly because "a substantial portion (estimated at one-third a few years ago) of Mozambique's foreign exchange earnings are derived from handling a major share of the Witwatersrand's overseas goods traffic"[31].

SATS also has jurisdiction over the railway network, and apart from the physical aspects of port capacity and facilities, ports can function only if they are serviced. In a Southern African context this essentially means the movement of goods by the railways. Therefore the economies within the sub-continent also depend on SATS. The broader activities of SATS include control of the railways, harbours, pipelines, South African Airways and considerable road transport.

The BLS countries and Namibia have their transport organised directly by SATS which is responsible for maintenance and development within the Southern

African Customs Union, although Botwsana has recently attempted to take over some responsibility for the running of its railways. The periodic transport crises in Zimbabwe can in part be traced to SATS's policy of disengagement from that economy[32]. The recently retired General Manager of SATS, Dr J G H Loubser, is quoted as saying that most neighbouring Black-ruled states have had to hire steam and diesel-electric locomotives from South Africa to keep their railways running efficiently[33]. The Zimbabwean government has stated that it cannot take part in economic sanctions against South Africa and there is a noticeable lack of criticism from Harare in its day-to-day dealings with Pretoria[34].

South Africa operates 75 percent of Southern Africa's rail network[35], as well as the most efficient ports, and despite the SADCC group's attempts to upgrade Mozambique rail and port facilities, thereby reducing their dependence on South Africa, the group remains dependent on SATS for their external trade. The trade boom widely anticipated by neighbouring Black states after the Rhodesian bush war and the establishment of an independent Zimbabwe, has not materialised. According to Lloyds Shipping Economist, Mozambique, which was expected to gain most from the ending of hostilities recorded a mere one percent increase in ships calling at its ports in 1980[36]. The same report noted that the greatest hindrances to Black Southern African states in cuttting their dependence on South African transport routes and trade outlets, were the lack of modern facilities to move goods from the landlocked countries to the coastal ports, the ageing rolling stock and poor condition of rail tracks, and the silting up of Mozambique ports. The Tanzam railway line, built as the linchpin of Zambia's disengagement policy in the 1970s, had become a frustrating and expensive bottleneck. Similarly, the Benguela rail link from Zambia to the Angolan port of Lobito is subject to lengthy disruption, due to the ongoing Angolan conflict, and it has never pretended to offer much solution to Zambia's transport crisis. In the context of economic growth it is also too much to expect that Zimbabwean rail capacity will be able to cope indefinitely with the demands of SADCC plans.

A withdrawal of SATS services from neighbouring countries will have little effect on that organisation, except in times of economic recession, when the subsequent loss of revenue would be undesirable, apart from the obvious decline in foreign exchange to the country in general. At other times the return of rolling stock and staff may relieve pressure on the domestic South African transport sector. Even in the event of Black African states expropriating SATS rolling stock on loan to them, the South African transport sector would be unaffected, as the quantity of rolling stock outside the Republic is monitored closely. On those occasions when South African rolling stock north of the Limpopo has experienced delays in turnaround, trade has been curtailed or halted, contingent upon its return. South African railway stock in foreign countries operates on commercial principles and indeed shows a profit.

LABOUR

The traditional, and almost one might say, "time-honoured", factor in economic relations between South Africa and the rest of the continent is labour. South African gold, diamond, coal and other mines, as well as agriculture and services have attracted millions of mainly unskilled Black workers from all over Southern Africa for many decades. Table 51 indicates the number of foreign-born Africans in South Africa between 1911 and 1977.

TABLE 51[37]

NUMBER OF FOREIGN-BORN AFRICANS IN SOUTH AFRICA, 1911-1977
FIGURES IN THOUSANDS

YEAR	TOTAL	WOMEN	MEN
1911	229	41	188
1921	280	64	216
1936	334	73	261
1946	539	104	435
1951	606	121	485
1960 (a)	836 (1)	186	550
1960 (b)	586 (2)	102 (2)	483
1965	494 (1)	n/a	n/a
1970 (a)	600 (3)	n/a	n/a
1970 (b)	486 (4)	43	443
1977	n/a	n/a	290 (5)
1978	n/a	n/a	421 (6)

NOTES

1. Froneman's estimate
2. 1960 census estimate
3. Breytenbach's estimate
4. 1970 census estimate
5. Clarke's estimate
6. Seidman's estimate

Since the first development of the Witwatersrand mines during the last century the South African mines have depended on expatriate labour. This has become so institutionalised that it is now an integral part of the economies of many of South Africa's neighbours and is vital for the continued production of both gold and coal in South Africa[38]. A decrease in foreign labour supplies would increase the mines' demand for local labour which might lead to a number of social and economic problems.

Despite the fivefold increase in Black wages on the mines between 1971 and 1976[39], working on the mines remains an unattractive proposition for many indigenous South African Blacks, due to the nature of the work situation and the relatively low remuneration, in comparison with that available in other sectors, such as manufacturing and services. Thus, if the mines were forced to recruit all labour locally, they would have to introduce more incentives, which may well necessitate cost increases. Foreign workers are, on the other hand, presently attracted to South Africa by the prospect of employment, and wages higher than are obtainable in their countries of origin. This gives rise to the much discussed migrant labour system, the costs and benefits of which lie outside this analysis.

This system involves a two-way interaction between the supplier states and South Africa. If the supply of foreign labour were curtailed or stopped this would obviously leave more employment opportunities for South African Blacks and, given the high unemployment amongst this group, this may be a desirable development. For this reason proposals have in fact been put forward to curb the flow of foreign migrant labour to South Africa[40]. There has in fact been a recent reduction in the proportion of foreign migrant workers to total employment on the mines. Table 52, which gives the origin by country of Black mineworkers employed in South Africa, illustrates this trend, with Malawi, in particular, and Mozambique reducing their labour exports to South Africa. This trend is significant on two counts; the region in general is probably relatively less vulnerable to sanctions on, or counter-santions by South Africa, and South Africa is also relatively more self-sufficient, though she may have less economic leverage over the region in general. However, certain states, in particular the BLS countries, were as dependent for employment on the South African mines in 1981 as they were in the early 1970s, and over 50 000 workers from Mozambique were still employed on the mines in 1981.

In addition to working on the mines many thousands of other foreign Blacks are

TABLE 52[41]

BLACK WORKERS EMPLOYED IN MINING AND QUARRYING IN SOUTH AFRICA, 1974-1981								
	1974	1975	1976	1977	1978	1979	1980	1981
SOUTH AFRICA	220 956	162 028	383 193	467 890	434 910	459 971	400 747	445 202
LESOTHO	107 221	121 990	129 533	146 158	130 746	128 800	115 078	129 508
BOTSWANA	25 636	28 329	35 293	35 666	27 514	25 690	22 805	22 500
SWAZILAND	7 302	13 006	16 599	14 464	10 984	10 120	9 185	10 713
MOZAMBIQUE	123 725	144 428	103 689	61 422	42 283	53 753	50 766	51 745
MALAWI	128 471	29 511	2 244	2 178	27 408	24 590	19 309	19 691
ZIMBABWE	823	1 888	22 083	26 397	16 315	10 150	8 066	4 849
OTHER AFRICA	4 953	8 934	7 763	1 541	2 767	2 245	1 827	88
T O T A L	619 087	570 114	700 397	755 716	692 921	715 319	628 283	684 296
% SOUTH AFRICAN WORKERS	35,7	31,8	54,7	61,9	62,8	64,3	63,8	65,1

in employment in South African manufacturing industry, services and agriculture. "In 1978 at least 155 600 people from Lesotho were employed in South Africa, compared with some 25 000 in wage employment at home ... At least 34 600 workers from Botswana were in the RSA in 1978, compared with 65 000 employed in their own country. Approximately 102 000 Swazis worked for a salary or wage in 1976, about 33 000 thereof in the RSA. In June 1978 some 327 000 foreign workers were in registered employment in South Africa; the true figure is assumed to have been at least half a million"[42]. The income of these migrant workers is at least partly remitted to their dependants in their countries of origin. The "dismantling" of this system would have severe consequences for these dependants, in addition to the workers themselves, and their respective countries, to which these remittances are a valuable source of revenue. Even one of the more extreme papers contained in the International University Exchange Fund study, authored by the late Ruth First and Robert H Davies, notes that appropriate and successful rural development performance and policies in the SADCC countries are prerequisites for an effective labour boycott of South Africa. "Disengagement from the apartheid system requires the acceleration of programmes for independent development strategies within and between supply states in the region. The emphasis of such restructuring of the supply economies should lie essentially in the creation of employment-generating projects and development strategies"[43].

The alternative is mass unemployment and great welfare loss within supplier states, which may be untenable on social, economic and political grounds. The above paper argues that present rural development strategies followed by supplier states are not able to provide alternative sources of income and employment to those currently dependent on mine labour. It concludes that only a co-operative development strategy, funded significantly by foreign aid-donor agencies, in which the interests of the poor peasants are placed foremost, would seem a viable alternative. It is in this economic context that South African threats to terminate Lesotho's migrant labour supplier-status should be viewed[44]. Furthermore, calls to boycott South African labour markets must be seen in the context of unprecedented population growth within the region in general. A relevant synopsis on the migrant labour system operating within the Southern African sub-continent is provided by the following excerpt from W J Breytenbach:

> "Industrialisation in South Africa in the last quarter of the previous century was the direct cause of the start of a labour relations pattern between South Africa and the other African states. This process became labour-intensive and required large numbers of unskilled workers. The most convenient and readily available source for this kind of labour proved to be the Southern African region.
>
> Depending on how one looks at this event the conclusion could be drawn that the labour supplying areas were either made up of separate underdeveloped economies or that they became part of a single Southern African economy with many links, of which labour is only one facet ...
>
> "This condition of labour links may be regarded as the functional manifestation of inter-regional manpower integration which started officially in 1897 ...
>
> "The end of colonialism did not (therefore) discontinue this inter-regional pattern of labour relations. In fact, it is one of the strongest bonds between the geo-political entities in Southern Africa. Nor are these bonds clandestine, as they are authorised by the relative governments. This may indicate that labour ties with South Africa are not stigmatised; that they are viewed beneficially.

"But whatever happens, it is certain that labour relations have become so politicised that their political significance will remain crucial."[45]

OTHER LINKS

Economic interdependence in the Southern African region is not confined to trade, transport links and labour. South African private investors and mining houses have played a substantial role in opening up the mineral wealth of Southern and Central Africa, and in establishing large agricultural and manufacturing ventures.[46] South African-based companies often attempt on their own account to overcome the African "boycott" of the Republic. Anglo-American Corporation, for example, has important interests in the following African countries: Zambia, Zaire, Sierra Leone, Mauritania, Tanzania, Ghana, Zimbabwe and the BLS countries[47]. Companies such as this operate and control a considerable amount of Black African mineral deposits, and if their expertise and capital were to be withdrawn or expropriated the future of their Black African ventures would be bleak. This applies to the Zambian copper mines in general and to many other operations, of which two examples are the Selibwe-Pikwe copper-nickel mine in Botswana and the Latseng-la-Terai diamond mine in Lesotho.

A further link between South Africa and her neighbours is provided by the Southern African Customs Union, which dates from the Union of South Africa in 1910, by which the then High Commission Territories, present day Botswana, Lesotho and Swaziland, were joined with South Africa for the wider purposes of an enlarged customs union. The terms of the original agreement were re-negotiated in 1969 in an attempt to spread the benefits of protection wider amongst the under-developed areas. Nolutshungu suggests that the benefits of the customs union arrangement, from the point of view of the smaller newly independent states, did not lie in their being relieved of the burden of collecting their own duties, but in access to a large market[48]. Furthermore, "termination of the customs union arrangement would probably occur in an atmosphere of acrimony in which South Africa would be tempted to use its considerable economic strength to drive home the imprudence of breaking away from the Union. It might impose restrictions on the movement of goods through South African territory and it could withdraw from joint agricultural marketing schemes such as those concerning wool"[49]. Customs duties formed 31 percent of Botswana's total current government revenue in the fiscal year 1975/76. Approximately 50 percent of Swaziland's total current government revenue in 1977/78 came from the same source, and as much as 72 percent of Lesotho's revenue in 1978/79 likewise[50]. Should the BLS countries break away from the Customs Union their subsequent collection costs would all but erode present revenue, which might decline if trade were impeded.

In addition to the Customs Union there is also the institution of the Rand Monetary Area, by which South Africa, Lesotho and Swaziland co-ordinate the application of exchange control and regularly consult one another on monetary matters. Within the Rand Monetary Area the transfer of funds is more or less unrestricted, and in the two smaller states the Rand is legal tender alongside the local currency. Additionally, the South African Reserve Bank acts as a lender of last resort to the other two monetary authorities and "in order to facilitate long term borrowing in South Africa, public-sector securities of Swaziland and Lesotho rank as prescribed investments for South African financial institutions"[51]. Lesotho and Swaziland's monetary systems are thus intertwined with that of South Africa, though theoretically each country is responsible for its own monetary policy.

Regional links centered on South Africa are also typified by tourism with approximately 60 percent of tourists visiting Swaziland coming from the Republic, compared with 70 percent in respect of Botswana and nearly all tourists to Lesotho[52]. In contrast tourist traffic between Zimbabwe and South Africa has diminished rapidly with the increased tensions prevailing between the two governments. This development has affected tourism little in South Africa as its tourist business was never much dependent on Zimbabwean visitors, whereas Zimabawean tourist operations are at an all-time low. Both the islands of Mauritius and Seychelles are heavily dependent on revenue from South African tourists and regular air flights operate between the two islands and the Republic. In the regional context Jan Smuts international airport at Johannesburg provides the major contact with the outside world. According to Malan: "South Africa's expansion of trade with Africa has also been accompanied by the growth in air and sea links with Black Africa. South African Airways at present operates scheduled flights to ten independent African countries while the large C130 transport aircraft of SAFAIR, a freight line operate many more. Two South African shipping companies, the Unicorn and Tropic Lines, regularly load and offload goods at West African harbours"[53].

Another area that warrants mention is energy. South Africa has supplemented its domestic power by importing electricity from the Cabora Bassa Scheme in Northern Mozambique, since its completion in the 1970s. However, this supply has recently been severely disrupted, due to excessive natural deterioration and sabotage of powerlines. The resulting shortfall, which has caused some temporary and intermittent "load-shedding" in the Republic has had only short run significance in South Africa, but, on the other hand, the scheme would appear uneconomic without the large South African market. The operation of the hydro-electric scheme on the Cunene River, bordering Namibia and Angola at Ruacana, is also bedevilled with similar problems. The BLS countries are almost wholly dependent on South Africa for their modest power requirements, and Lesotho is presently engaged in negotiations with the Republic in respect of the construction and operation of the Oxbow irrigation scheme, by which water and power is to be supplied to South Africa. Zambia, Zimbabwe and Mozambique are independent of South African electrical power supplies by virtue of the hydro-electric schemes on the Zambesi and Kafue Rivers.

Martin Bailey presents a more-or-less detailed analysis of the oil requirements of the countries within the region in his article "Oil Sanctions: South Africa's Weak Link"[54]. He comes to the somewhat surprising and nonchalant conclusion that the current dependence of South Africa's neighbours on supplies of refined oil from South Africa should not prove to be an insurmountable obstacle to the imposition of an oil embargo. "In the case of Lesotho an oil embargo against South Africa would pose grave transport problems. This could, however, be considerably alleviated if large oil stockpiles were built up. Botswana would face some difficulties but supplies could probably be obtained through Zimabawe. For the other countries of Southern and Central Africa (Namibia, Zimbabwe, Swaziland, Mozambique, etc) the direct costs would be relatively small"[55]. However, this scenario is at present, patently unrealistic, as the relatively underdeveloped countries in the region do not have the resources to build up stockpiles, construct refineries and pipelines, and air-lift oil supplies, as suggested by Bailey. There is also, obviously, a limit to the funds which aid-donor agencies could make available, a source of finance which Bailey suggests is a way out of the sanctions dilemma faced by Black Africa in respect of oil supplies.

CONCLUSION

This sketch of economic ties between South Africa and her neighbours in the regional context, does not give any accurate indication of what the likely consequences of sanctions will be within the region. As with the literature dealing with the case of sanctions and South Africa in general, different sources give contradictory information, and the same source may even contradict itself at different times. For example, it is variously stated that South Africa's neighbours are in favour of or against any purported sanctions campaign, although some of this inconsistency may be due to changes in official policy or spokesmen (or even reporting agency)[56]. Despite the obvious economic "dependence" of Black African states on South Africa, they nonetheless, may feel a moral obligation to support any sanctions campaign, since they are ususally the most vociferous advocates of sanctions, although much of the Black African rhetoric is designed to coerce South Africa's major economic partners to do Black Africa's political chicanery. Black African nations within the region will obviously try to reduce their dependence on economic links with South Africa, and such moves may meet with some measure of success in the long term. This bias is the <u>raison d'être</u> for the establishment and propagation of the Southern African Development Coordination Conference. In the case of sanctions on Rhodesia, the estimated costs to Zambia and Mozambique of border closures, were R800-900 million per annum and R140 million per annum respectively, whilst at least 10 000 Mozambiquans lost their jobs.[57]. It would not be incorrect to state that the costs of sanctions on South Africa, to the region in general, due either to economic "spill-over", or to deliberate counter-sanctions by the Republic, would be far greater than in the case of Rhodesia. This represents a clearcut dilemma for Black Africa, which is seeking to promote economic development not economic destruction. The situation is usefully summarised by the pro-sanctions commentator, R H Green, who writes, "However, the sketch suggests a compelling case against any repetition of the Rhodesian sanctions experience. A combination of a largely ineffectual sanctions policy - applied by all or several Southern African states, but grossly evaded by many other states and by firms based in them, which might be late, limited and not underpinned with adequate international support for affected Southern African States is a scenario for disaster. The independent Southern African states and peoples in themselves are in no position to bear the cost of fifteen years of that type of confrontation with the Republic of South Africa"[58].

The trade-off between political will and economic welfare within the region amongst would-be sanctioners, is, however, clouded by the sometimes escalating military confrontation, which may, on the one hand, increase the political resolve of the United Nations but decrease that of South Africa's neighbours, who would subsequently be under increasing double pressure. On the other hand, such confrontation may decrease economic co-operation within the region as it becomes problematic. Furthermore, the South African government may come under increasing right-wing political pressure to terminate economic intercourse with neighbouring territories. Essentially, then, it is evident that the political and economic relationships within Southern Africa are in a state of flux.

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CONCLUSION

The various chapters in this thesis have dealt with the notion of economic sanctions in general and tried to relate it to the main features of the South African economy, using both routinely available data and literature specifically related to the topic. The overall sense of the thesis is briefly summarized below.

It has been pointed out above that economic sanctions are essentially economic measures directed to political objectives. The "economic" aspect of sanctions assumes a mainly intermediate character, where economic variables may be reviewed as either "ends" or 'means", at least from a methodological point of view. Furthermore, although the ultimate target of sanctions may be the government of a nation, or its policies, the intermediate target may well be represented by private companies, institutions, or groups of persons. However, such methodological and empirical complications do not necessarily materially alter the academic investigation or practical application of sanctions. The general lack of success of sanctions to date is rather due to the confusion of "sanctions" in times of peace with "economic warfare" in times of (total) war.

The choice of different sanction strategies in respect of a potential target, such as South Africa, would appear to be normally governed by a variety of national-specific considerations which generally involve a trade-off between political will and economic self-interest. Where this trade-off is acute, it usually implies problems for the sanctions campaign. This feature is particularly prominent in the Southern African regional context, because for the people of the sub-continent, sanctions are not an abstract exercise designed to illustrate the potentially coercive power of international organisations, but a set of measures likely to deprive them of, and disrupt, their livelihood. This may account for the naivety and evident self-righteousness of many of the economically and geographically removed commentators on the issue. Apart from national-specific differences towards sanctions strategies in general, and South Africa in particular, the selection of sanctions may be arbitrary and inconsistent. Sanctions are, for example, often related to issues of emotional appeal, such as military capacity, or areas of weak resistance like sport and tourism, and also where they could potentially be most effective in a functional sense as, for example, with oil sanctions.

Certain methodological shortcomings are also present in the sanctions literature. In particular, one of the more serious flaws is the preoccupation with short term measures designed to destabilise the economy, when the objective of effective sanctions would surely be to alter the structure of the economy. The measures usually advocated, and the time periods to which they relate, may well amount to a self-defeating or misleading exercise, as they are often overtaken by swings in the business cycle or corrected by policy measures introduced by the authorities. This is a recurring feature in the literature which is not easily reconciled with either sound theory or economic reality, and incidentally also complicates the logical anaysis of sanctions literature.

Apart from such methodological problems, there are also certain terminological difficulties, for example, the somewhat careless use of terms such as "dependence" and "control", where it might be more appropriate to speak of "trade" or "resource endowment"; terms like "foreign investment" and "disinvestment" which are often used in a rather broad sense may present similar analytical difficulties.

South African commentators sometimes stress that the economy is technically able to produce almost anything it requires, and emphasize this point by referring to the successful development of the local arms industry since the imposition of the United Nations mandatory arms embargo in 1977: South Africa can evidently now produce its own submarines and is reputed to be the tenth largest arms producer in the world. However, it is not necessarily only the technical feasibility which is important in the context of sanctions, as the associated costs and misallocation of resources may be substantial, particularly in the long run. Anti-sanctions literature tends to overlook issues related to efficient resource allocation, and it would appear that from a political viewpoint, it is the physical availability of certain products that is deemed more important than the impact of sanctions on the standard of living. This feature may, for example, be illustrated by the conspicuous absence of detailed literature on the potential problems of the manufacturing industry under sanctions. In particular, the area that has been largely ignored is the capital goods industry, especially in respect of capital depreciation, obsolescence and replacement problems. As sanctions generally amount to a piecemeal exercise, there may exist several loopholes in a potential sanctions campaign, not always immediately obvious.

There are essentially three issues which may serve to precipitate trade and investment sanctions against South Africa, namely: Namibia, apartheid and military attacks on neighbouring states. Likewise, such sanctions can, in principle, be countered by one of three models, elements of which, historically speaking, are to be found in the application of economic sanctions. The first model is based on non-compliance by the country's main economic partners with international sanctions, and implies a low cost for South Africa. The second model is based on the experience of Rhodesia and envisages a friendly "backdoor" by which it is possible to continue trading and investing, albeit at a higher cost than in the first model. The third model is one of enforced autarky which represents, for the target country, the alternative with the greatest economic cost. However, in the absence of an adequate macro-economic "sanctions" model of sufficient predictive power, it is not feasible to forcast the economic (or political) outcome of potential sanctions strategies in detailed quantitative terms. In general, however, it would appear that economic sanctions on South Africa would only be "successful" if the political interests of potential sanctioners, for example, the United Nations and the Organisation of African Unity, could be reconciled with the economic interests of her major trading partners. As long as this is not the case, effective economic sanctions against South Africa are likely to remain literally wishful thinking by impotent parties.

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