SWP 45/87 HOW THE WEST GAINS FROM APARTHEID: THE CASE OF THE UNITED KINGDOM

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A Worsening Situation?

Apartheid in South Africa has never been under greater threat. The current unrest, which is generally considered to date back to 1984, does not seem to be of the transient nature that many observers predicted. The death toll mounts at an increasing rate (1) and civil war, more than ever before, seems imminent. Against this backdrop, the pressure in the UK for substantial economic sanctions against South Africa has reached an unprecedented level. Public opinion would appear to be in favour (2), especially in the light of recent Government support for actions against Libya. The Government is also under pressure from the opposition parties, the UN, the Commonwealth - some countries have even spoken of leaving the Commonwealth if further sanctions are not applied (3) - and, to a lesser extent, the EEC (European Economic Community).

Many refer to a worsening situation in South Africa. And an expressed desire by some for the alleviation of this does not always hide an underlying self-interest, especially when such apparently compassionate statements are made alongside criticisms of further sanctions. Others view the situation with optimism. While deeply regretting the seemingly inevitable loss of life, they believe they are witnessing the death throes of apartheid and the heralding of a majority rule South Africa.

It is not appropriate for this paper to speculate on the exact timing of the demise of apartheid; current events may too easily color objective assessment. Nor should it make what is essentially a value judgement on the desirability of an end to apartheid at the cost of many lives. This demands taking a position on ends and means and makes the possibly contentious assumption that peaceful change in South Africa is not possible. However, it will be assumed that the end of apartheid is close at hand; that is, likely within the next five years. And, moreover, that this will be achieved largely through violent coercion of the South African authorities, as it is at least the (reported) perception of many blacks within South Africa that the Government's intransigence precludes a peaceful solution.

This paper examines the prospects for business in South Africa within these parameters. It thereby considers the role of business in apartheid, the arguments for and against economic sanctions on South Africa, including their costs and the constructive engagement argument, and the challenges to be faced by business up to and after the end of apartheid. A UK perspective is adopted.

Business and Apartheid

Apartheid in South Africa is a highly charged issue. It is also a complex issue and one that has remained exceptionally prominent since the Sharpeville shootings in 1960. Even before the current unrest, hardly a day would pass without some reference in the UK press to oppression in South Africa. The South African Government, in a series of advertisements in the national press in the UK in 1983, commented: "South Africa arouses more controversy than almost any other country in the world." Its motivations in running this campaign and pointing to this controversy aside, the observation is acceptable as accurate. In looking at how the West gains from apartheid and the role of business in this, it is necessary to first examine the nature of apartheid itself. This examination is based on many sources, including an interview with the Commercial Minister at the South African Embassy in London (4).

Apartheid is an Afrikaans word meaning separateness or segregation. It has long been used by the South African government to describe its policy of pursuing the separate development of the races in South Africa, though it is arguable that, as 'grand apartheid', the policy has now been largely abandoned. It was, at least, followed by the National Party after it came to power in 1948 and particularly after it was formally established under Dr Verwoerd, known as the 'architect' of apartheid, Prime Minister from 1958 till his assassination in 1966. Many, though, would suggest apartheid's origins go back a lot further, to the Land Act of 1913, which established the Native Reserves, and even to British colonial rule prior to the Act of Union in 1910.

Apartheid is also considered to mean institutionalised racism. Oliver Tambo, President of the African National Congress (ANC), has described it as "the sum total of all the policies, stratagems and methods, beliefs and attitudes that have been marshalled and are being employed in an attempt to ensure and entrench the political domination and economic exploitation of the African people by the white minority." While Nobel prize winner Bishop Desmond Tutu, in reference to the oppression of the black population in South Africa, has said: "When the missionaries first came to Africa they had the Bible and we had the land. They said 'let us pray'. We closed our eyes. When we opened them, we had the Bible and they had the land."

This implication of colonialism, however, and any suggestion that the white population has less of a claim to the land in South Africa than the blacks, would be swiftly denied by white South Africans. The South Africa Yearbook, produced by the South African Government, describes both the whites and blacks in South Africa as being descendants of immigrants. The only indigenous people of South Africa being the Bushmen (San), now "numerically insignificant." It suggests the (Bantu-speaking) blacks of South Africa are the descendants of Iron-Age farmers who arrived from central Africa in the 11th and 12th centuries. The whites being the descendants of 17th and 18th century settlers, particularly the Afrikaners whose largely Dutch and German ethnic composition dates back to the Dutch administration of the Cape originating with Van

Riebeeck in 1652. This perspective is emphasised in history lessons in South Africa's schools.

It is the ethnic diversity of South Africa and the requirement to defend the claims of minority groups (including, of course, the whites) that provides the official rationale for apartheid. Government statistics put the population at just under 24 million in 1980 (excluding Venda, Bophuthatswana and Transkei). Within this there are many different ethnic groups, the Yearbook lists nine ethnic divisions to South Africa's black population of just under 16 million. The whites number about 4½ million, the coloreds, 2½ million, and the Asians 3/4 million. This heterogeneity inspires the policy of separate development, apartheid. South Africans claim the West does not understand South Africa's situation and especially this racial complexity. Accordingly, while Western critics view separate development as racist, particularly given the West's approach of integration to ethnic differences, many white South Africans argue that separate development is necessary for South Africa's situation.

The far greater diversity of South Africa is not the only reasno for President Botha saying the West does not understand "the realities of the subcontinent," the West is also criticised for judging South Africa by Western standards when it forms part of the Third World. Separate development is defended because of the differences between the various groups in South Africa but most notably the differences in 'sophistication'. Pointing to Zimbabwe, many white South Africans suggest that majority rule in an integrated South Africa would mean 'tribalism would out'. The Zulus, the largest group in South Africa (6 million), are particularly feared.

South Africa's solution to the problem it identifies of ethnic diversity and the potential threat of continual inter-racial violence under an integrated South Africa, is a confederation of states. This is known as 'grand apartheid'. Separate development involves the blacks living outside white South Africa, ultimately all within ten states. These were formally the Native Reserves, which the Government has now designated as 'homelands' (or Bantustans). If 'grand apartheid' were to be realised, there would be no black South Africans. The homelands would be independent - and Venda, Bophuthatswana, Transkei and Ciskei are already 'independent' (but no country other than South Africa recognises this).

So apartheid is purportedly a system whereby the many races of South Africa may coexist securely and separately, different but equal. Yet it is in effect a racist ideology advancing separate development to maintain the economic exploitation of the black majority. Ideologies serve to explain the world to their adherents but in a way that justifies their interests. Many whites in South Africa still believe the differences between the races demands their separateness, each in the land which 'belongs' to them. In its extreme form, this belief finds its expression in support for the parties of the far right in South Africa as, for instance, in the recent rise to prominence of Eugene Terre' Blanche and the Afrikaner Weerstandsbeweging (AWB). Other whites reject this view but are not willing to accept or are frightened of the consequences of an integrated South Africa under majority rule.

Black leaders reject all arguments about ethnic differences between the blacks. They see themselves as black first and foremost and it is noted that the South African authorities make and encourage the divisions, including, through the use of vigilantes, the fighting between blacks which characterises much of the current unrest. Apartheid cannot be accepted as simply a solution to a problem of ethnic diversity as an alternative to integration. And it is more than overt racial discrimination. It is fundamentally about economic exploitation. This is where business is involved and why corporate involvement in South AFrica is widely condemned.

The homelands represent only 13% of the country's land mass - including some of the poorest land in the country - yet they are (or were) intended to contain 73% of South Africa's population. Every black already has a homeland and consequently, in response to the criticism that the blacks are completely without political rights, the Government responds that they have political rights in their 'independent' homelands. However, only about half (12-13 million) actually live in the homelands, many have not seen their homeland and will probably never do so. Despite a policy of repatriation - the forced removal to these homelands - the Government recognises that a large proportion of blacks will remain in the townships. The size of the black urban population is dictated by economic requirements, for apartheid in its effect if not its design means the creation of a migratory labor system. Under such a system cheap labor is used as and when required without the disadvantages of 'having to put up with it' in the community.

Apartheid involves even the urban blacks (and the coloreds and Asians for that matter) living outside white South Africa. The Group Areas Act provides for the different racial groups to live in separate areas. Accordingly, the urban blacks live in townships - many of which are shanty towns - on the edges of the cities. Soweto, for example, is a township of 1½ million people south west of Johannesburg. If the white town is close enough to a homeland for workers to be able to commute, the Government disestablishes the old black township beside the white town, moving the people to a township in the homeland. As well as residential areas, facilities such as beaches, cinemas and state schools are also segregated. The myriad of laws which ensure separation, and their brutal enforcement, gives rise to the description of apartheid as institutionalised racism.

South Africa is extremely prosperous by African standards, its current troubles notwithstanding. This prosperity is built upon an economic dependence on the blacks. It has long been claimed that it is this dependence, which continues to grow and particularly now in its demands for skilled workers (including middle managers), that will bring an end to apartheid. It is estimated that by the year 2000 the black population in South Africa will be 37 million but the white population only 6 million. Already, job reservation for whites has ended due to recruitment difficulties. Continued growth will mean greater economic incorporation of the blacks. With this, it is argued, political and social incorporation cannot but follow. In other words, apartheid as a means primarily for economic exploitation, but which also involves social and political exclusion, will be destroyed through economic progress.

This perspective, however, no longer satisfies many opponents of apartheid. While the average black is materially better off than most of his or her counterparts elsewhere in Africa, this does not compensate for the absence of political rights and the great disparity between blacks and whites, with the latter having probably the highest standard of living in the world. Little real progress is evident; few reforms have been more than cosmetic, despite Botha's "adapt or die" slogan. The current economic problems of South Africa can only exacerbate the situation. The armed seizure of state political power by the ANC and economic sanctions applied by the outside world to hasten the defeat of the government are viewed by many as the only means of ending apartheid. At the very least, those advocating further sanctions are seeking more rapid change in South Africa than its Government seems prepared to concede.

It has been suggested that South Africa's apartheid system has always been a mutually beneficial alliance between a minority government and private business; that there is a convergence of interest between business in South Africa and the upholders of apartheid. The basis for this, as indicated above, is apartheid's role in the provision of cheap labor, particularly in establishing a migratory labor system, and in the grossly unequal apportionment of the country's wealth. The International Labour Organisation (ILO) has described apartheid as "a system of forced labour." Efficient use of this labor resource has demanded capital investment which has come from the West. South Africa's development has consistently involved the combination of cheap labor and Western capital, from the late 19th century when British settlers such as Cecil Rhodes first started large-scale mining of diamonds and gold, to more recent times and the creation of South Africa's now quite substantial manufacturing base. Business - and British business in particular - has long been implicated in apartheid.

Of course, Western businesses operate in other countries characterised by oppression, exploitation and great differences in wealth. However, none of these countries are as extreme as South Africa and operate as overtly. Nor do they wish to be considered as part of the West - a (white) South African aspiration - but not be judged by Western standards and values. Moreover, corporate activity in other unsavoury countries should also be held up to scrutiny and South Africa is symbolic in this respect. Calling attention to the wrongs of South Africa and corporate involvement in them, highlights other less noticeable wrongs elsewhere. But if they are not addressed in South Africa why should they be addressed in other countries?

South Africa is dependent on Western capital. Recognition of this gives support to the calls for economic sanctions against South Africa. However, Western capital is also dependent on South Africa. Both benefit from apartheid. This complexity underlies demands for sanctions and affects the likelihood of their imposition.

Sanctions against South Africa

Arnt Spandau, Professor of Business Economics at Witwatersrand University, Johannesburg, suggests "trade is the most important life-line" of South Africa (5). The Yearbook also recognises the importance of trade to the South African economy. It refers to a "great but declining dependence on external trade" (the decline is due to the expansion of domestic consumer markets). Among Western countries, in 1980, South Africa occupied 15th position in the value of imports and exports of merchandise, while the total reciprocal flow of goods and services between South Africa and the rest of the world amounted to 63% of South Africa's GDP - described by the Yearbook as "one of the highest proportions in the Western world." In 1981, 14.4% of South Africa's exports were to the USA, 13.6% to Japan, 11.8% to the United Kingdom, and 22.5% to the rest of the EEC. Less than 10% were to Africa (6). Later figures put, in order of size, the US, Japan, Switzerland, the UK, and West Germany as South Africa's largest export markets, worth around five billion dollars (7).

Western investment in South Africa is substantial and, until most recently, continued to grow; much of it is British and American. Jesse Jackson has commented "The US and Britain, which consider themselves to be the crown jewels of democracy, in fact have the heaviest investment in South Africa. South Africa could not exist in its system of apartheid without the propping up from the US and Britain." Britain is by far the largest single foreign investor in South Africa, both directly and indirectly. The United Kingdom South Africa Trade Association (UKSATA) estimates that almost 10% of all British overseas direct investment is in South Africa, the market value of which at

January 1982 was estimated at about £5,000 million. Indirect (portfolio) investment was estimated at £6,000 million, putting a total of eleven billion pounds investment at stake in South Africa. They suggest British investment accounts for almost 50% of total foreign investment in South Africa (8). More recent sources refer to a figure of around twelve billion pounds invested, though some suggest the direct investment has been reduced by up to half its value three years ago because of the drop in the value of the Rand (9). United States direct investment is put at $2.5 billion, though this is, in contrast with the UK, less than 1% of American overseas direct investment (10).

South Africa's reliance on trade and Western investment has led to demands for economic sanctions. However, despite frequently professed abhorrence of apartheid, the only significant economic sanctions imposed by governments up to 1985 were the United Nations Security Council Resolution 418, prohibiting arms sales to South Africa, and the OPEC oil boycott. Subsequently, events in South Africa have prompted other measures but these have been largely of a token nature or by countries with only minor interests in South Africa. Britain, for example, has placed a ban on Krugerrand sales.

In considering international economic sanctions there is an important distinction between effectiveness and success. The distinction is based on the difference between the achievement of an economic impact and realising the objectives of the action. Writers on sanctions make the distinction to emphasise that effectiveness does not necessarily give rise to success, as in the case of American sanctions against Cuba (11). While it is generally assumed that effectiveness is necessary for success, some writers on sanctions question this. Galtung, for instance, observes that the goals in their use may involve punishment and the enforcement of international morality as well as changes in the boycotted country. In other words, sanctions have expressive and instrumental functions. So they may be successful without being effective. (12).

It follows then that measures which appear to be of a token nature can be important in a symbolic way. They lend support to declarations of abhorrence of apartheid. Yet while they may say something to the rest of the world they may not say enough to South Africa, the intended target. However, a range of sanctions are available. Token measures suggest the prospect of further, more substantial measures. But will they follow in South Africa's case?

Four principal arguments are advanced against economic sanctions on South Africa: the costs for those imposing them, that they would harm the blacks of South Africa most, doubts as to their effectiveness, and constructive engagement. Each is examined in turn as follows.

The Costs for those Imposing Sanctions

The UK would incur some of the greatest costs in imposing sanctions. Estimates of these costs vary and, of course, their impact would depend upon whether a total boycott was imposed or selective sanctions. Margaret Thatcher has on many occasions spoken out against sanctions, though in June 1986 there was a perceptible change in attitude as pressure for sanctions mounted and the possibility of further UK sanctions has been admitted.

Trade and investment involves an interdependence. The size of Britain's investment in South Africa has already been shown to be substantial. British trade with South Africa is also important. In 1985, Britain's visible exports to South Africa were worth £1000 million, 1.28% of the total. Invisible earnings from South Africa -

shipping, banking interest and so on - was worth £1,900 million in 1984. This was 2.3% of total British invisible credits (13).

The costs of this loss of trade has been assessed in terms of increased unemployment. UKSATA suggest a figure as high as 250,000 additional unemployed in Britain with a boycott against South Africa (14). More recently, while the Prime Minister's office has been quoting 120,000 and the Foreign and Commonwealth office 50,000, Anti-Apartheid estimates that less than 10,000 UK jobs would be lost as a result of sanctions (15). Clearly some jobs would go with a total boycott of South Africa. GEC, for example, has a big contract to supply machinery for three South African power stations. Other companies in the power engineering industry, which accounts for a lot of UK trade with South Africa, would also suffer. However, job loss estimates do not seem very reliable and one recent source comments: "it is Britain's invisible trades with South Africa - banking, shipping, investment, air travel - not UK jobs, which does seem to be the key issue. Forget the impact of losing £1 billion of power station and chemical and whisky exports, and look to invisible earnings of £1.9 billion last year, most of which were payments of interest, dividends and profits from British investments in South Africa" (16).

UKSATA have also expressed a concern about questions of principle affecting the British National Interest arising from the use of economic sanctions, as well as the practical effects on the British economy. They suggest Britain's role as a leading trading nation would be threatened, that "Companies are not the instruments of governments, they have no role to play in judging issues which only governments can resolve." In other words, 'don't mix business and politics' - social and political issues are the concern of governments not business. However, the idea of business and politics as two separate and autonomous areas should be recognised as notably suspect. The role of business (or capital) in South Africa means that it is involved in - and some would argue responsible for - the political situation in South Africa. As one source puts it, referring to both business interests and business' political lobbying to protect those interests: "The claim for the separateness of politics and business is never more frivolous or irrelevant than in its application to apartheid" (17).

UKSATA's arguments about South Africa offering Britain one of the best prospects for trade growth, about the high profits from South Africans operations, and on South Africa's relatively 'liberal' exchange controls (permitting repatriation of profits and dividends without great restrictions), are all but negligible in South Africa's current situation. They were, however, historically of great importance and explained much of Britain's commitment to the stability of South Africa (and, thereby, the maintenance of apartheid).

Britain's trade with South Africa is important for Britain, or, at least, some sectors of British business. However, so is Britain's trade with black Africa, which is greater. So Denis Healey, as British shadow foreign secretary, in demanding economic sanctions against South Africa, has commented: "the British Government will face a choice between losing its trade with black Africa, which is much greater than its trade with South Africa, and its investments in South Africa. They are likely to become dangerous and unprofitable so long as apartheid remains." More recently, some black African states have threatened sanctions against the UK if action is not taken against South Africa (18). UKSATA point to South African trade with black Africa, though this seems small given the geographical proximity. Black Africa has also called for sanctions against South Africa, despite the considerable costs that would be incurred. These costs would not only involve probable loss of trade with South Africa but also difficulties for land-locked countries such as Lesotho and Swaziland, which would probably be denied their supply routes through South Africa. International economic sanctions involve costs for the target of the action, but also the various participants. As the costs borne by the participants will vary, some suffering more than others, a further problem is agreeing and effecting compensation for those bearing greater costs. Increased aid to Africa may be necessary if major sanctions are imposed.

Disinvestment, voluntarily or otherwise, is regarded by UKSATA and others as impracticable. Should companies be forced to withdraw they would have to sell their assets - always assuming they weren't first expropriated by the South African Government and that capital would be permitted to be repatriated. This could presumably only be done at a considerable discount. It may be the likelihood of this that has prompted companies such as Metal Box, Pilkington and ABF to reduce their South African involvement, to 'get out while the going's good', as it were. There has at least been a trend towards smaller shareholdings in South African operations, though this may also have something to do with a desire for lower visibility as much as less risk exposure. Moreover, the South African Government has encouraged reductions in foreign shareholdings to increase local ownership, financed, however, by Western capital. Indirect investment via Western banks, by the South African private sector and increasingly the state or semi-state sector, initiated by the Government, has been replacing direct investment via companies. This switch to indirect forms of investment is as susceptible as the direct forms, if not more so, as South Africa could simply choose not to repay loans should sanctions be imposed.

This strategy of the South African Government is important because, as one source explains: "Its indirect nature depoliticises the European economic link with apartheid by making it more diffuse and hard to identify" (19). It is also a major reason for the emphasis on banks and loans to South Africa by anti-apartheid protesters.

Restricted access to strategic raw materials is a further consideration in the use of economic sanctions against South Africa and potentially a great cost for those imposing sanctions. UKSATA suggests access to raw materials from South Africa is as necessary to the industrial West as access to Middle Eastern oil, and "Without these raw materials vital sectors of British, West European, American and Japanese industry would be crippled and it follows that world trade would be seriously disrupted if South African raw materials were denied to the West as a result of a trade embargo." As the South African Commercial Minister remarked, trade is "a two-way process." And the importance of trading for South African raw materials should not be overlooked. The European Community imports something like 80% of its platinum, 91% of its chromium ore, 90% of its manganese and 36% of its vanadium from South Africa. An interruption in supplies would certainly push prices up. However, it has been argued that scarcity would encourage recycling, conservation and substitution and would not be sufficient to hold the West to ransom (20).

So, in sum, the costs of imposing economic sanctions for the West, and the UK in particular, could be considerable. There would also be costs for the black African countries. Loss of trade and the knock-on effect for the domestic economies, loss of substantial investments as well as investment incomes, and the likely restricted access to key minerals, are major disincentives in considering such action. This is aside from the country's perceived political and military significance as a bastion against communism in Africa and protector of the Cape sea route. This economic, political and strategic interdependence has always made the use of effective international economic sanctions by the West unlikely. However, the costs of sanctions could be borne without substantial hardship, even assuming a total boycott. Depending on how involved the West became, the establishment of majority rule need not automatically mean an end to Western influence in South Africa. Certainly sanctions and the likely subsequent changes in South Africa are less easy to contemplate than maintenance of the status-quo. But can this position of inaction be defended, especially given the current level of violence in the country and the corresponding increase in pressure for sanctions?

To trade with or invest in South Africa is viewed as supporting apartheid. Denial of trade and investment in South Africa is considered the most appropriate way in which the West can seek an end to apartheid. Yet such measures, the opponents of sanctions claim, would harm most those that they are intended to help. The second major argument against sanctions is that they would harm the blacks most. Given that it is claimed that the blacks of South Africa are in favour of sanctions, this argument can be usefully considered alongside the costs for those imposing sanctions.

Sir Anthony Kershaw, as chairman of the House of Commons select committee on foreign affairs has commented in opposition to sanctions: "Cutting South Africa off from the rest of the world would not do anything about apartheid and would harm the blacks." To which the reply, as often expressed, was that the blacks are already suffering "beset with hunger and humiliations, as well as mortal danger from the police," according to Mr Ramphal, the Commonwealth Secretary General.

Some black leaders have declared themselves opposed to sanctions, such as Lucy Mvubelo, General Secretary of the National Union of Clothing Workers and Vice-President of the Trade Union Council of South Africa, and Chief Buthelezi, Chief Minister of the Zulu homeland, Kwa Zulu. Such government-appointed black leaders are often viewed with suspicion, however. The ANC and many black union leaders continue to call for sanctions and the Commonwealth Secretary General reports that the information reaching Commonwealth governments in Africa was that the black South Africans still wanted sanctions. There would, of course, be suffering for both South African blacks and those from neighboring countries that work in South Africa, but then it is said they are already suffering. This assumes that sanctions would be substantial and effective. The third argument against sanctions is that they wouldn't work.

The Effectiveness of Sanctions

UKSATA claims there is no evidence that trade sanctions have been successful elsewhere. UKSATA and other opponents of sanctions point in particular to the alleged failure of sanctions against Rhodesia following UDI (Rhodesia's unilateral declaration of independence). However, the limits to the effectiveness of sanctions against Rhodesia were largely as a result of sanction-busting by South Africa. In the case of sanctions against South Africa, there would be less scope for third party sanction-busting. Moreover, Rhodesia has become Zimbabwe, and sanctions played a part in this. One observer writing prior to the transition commented on sanctions against Rhodesia and others: "If agreements are reached, the more probable causes will not be economic but changed political bases for compromise or the imminence of military, rather than strictly economic, warfare" (21). In South Africa sanctions would be likely to achieve majority rule alongside the efforts of the ANC.

South Africa's response to sanctions would include countervailing measures, such as import substitution, rationing and the use of gold to pay for boycott-busting. The transantional socialist group Agenor has identified oil as South Africa's jugular vein, as "one of the few commodities where South Africa is really vulnerable." But even an (effective) oil boycott is rejectd by Spandau as unlikely to be successful (22). The bulk of South Africa's energy needs is supplied by coal. Coal supplies are estimated to last at least 130 years and less than one fifth of South Africa's energy demands are met from oil. The transport sector however is 80% dependent on oil. But already a substantial proportion of this is provided by the Sasol oil from coal process. Investment in this technology continues and as an additional anticipatory measure, South Africa is stockpiling fuel (in 1978 it had at least 2½ years' supply at current rates of consumption). Spandau calculates that South Africa could withstand an oil boycott for at least eleven years through (25%) rationing, sanctioning by South Africa of its bunker oil sales, Sasol output, and the use of stockpiled crude. In the longer term, further investment would be made in the Sasol process and possibly non-conventional energy sources, fuel alcohols such as ethanol and methanol (Brazil is already using an ethanol-gasoline mixture for its motor fuel, derived from sugar-cane). South Africa has continued to obtain oil despite the OPEC boycott, by buying from Iran prior to the revolution and on the spot market subsequently (but it is estimated that the South African oil bill doubled in 1979).

Gold is an alternative commodity which might be more effectively used with a program of selective sanctions. It accounts for around half of South Africa's export earnings of foreign currency. A halving of the gold price would cut foreign earnings by a quarter and this sanction could not be easily avoided. Stockpiles held by the International Monetary Fund or the United States could be used to achieve this (23).

The United Nations arms embargo, although mandatory, has proved ineffective, though as with oil, South Africa incurs considerable extra costs. Despite the boycott, South Africa continues to spend half its arms budget overseas (1983) - most notably with Israel - and has now become an arms exporter through the development of its own production facilities (24). Historically then, there is some support for the criticism of the effectiveness of sanctions. But, the critics ask, if sanctions are so ineffective, why oppose their introduction? Further sanctions would, as earlier noted, be of symbolic importance. They can be successful without being effective and they should not be assessed in isolation from other efforts. Of course, if a role is to be acknolwedged for the ANC, this presumes this organisation and its aim of majority rule are favored by the West.

The most convincing and prominent argument against sanctions was always the idea of bridge-building and change from within. This is known as constructive engagement.

Constructive Engagement

The forth and final major argument against sanctions is that 'constructive engagemenet' is more likely to be successful. This term has been attributed to Dr Chester Crocker, the United States Assistant Secretary of State for Africa, and has only come into use quite recently. However it describes a long-standing approach to the South African problem: the idea of reform from within and the 'change through prosperity' argument - the more business we do the more effectively we undermine apartheid. In foreign policy it is exemplified by the efforts (and failure) of the United States and the rest of the Contact Group (Britain, France, West Germany and Canada) to gently persuade rather than coerce South Africa to give up its illegal occupation of Namibia. It is the principal justification given for involvement with South Africa not only at a diplomatic or 'political' level, but also in terms of trade. So Chester Crocker has earlier said "The point is that among all the objectionable features of apartheid, there may be some that would logicaly go first if an open-ended process of change is to take root. The true friends of South Africa may be those who are prepared to talk now about short-term and intermediate goals consistent with the ultimate goal of a non-racial society. Our role is to support and applaud progress that does occur while maintaining pressure for continued movement."

Accordinlgy, business interests describe their involvement in South Africa as a positive force for change. UKSATA observe "There is no evidence to suggest that either disinvestment, or a trade embargo, would help black South Africans. On the contrary, moderate black leaders want more, not less, foreign investment, in order to achieve the economic and political benefits they and their people desire." They then suggest "British companies are a force for good."

Firms involved in South Africa will almost without exception defend their position on the basis of the constructive engagement argument. Sir Anthony Tuke, as Chairman of RTZ (and former Barclays Chairman), has commented "The question both we as investors and the people who will be affected by a new operation must ask is, whether the benefits of a major investment outweigh the disadvantages change may bring. We do believe that the advantages overwhelmingly outweigh the disadvantages as we see the rising standards of living in the areas where we operate. These are evidenced by the high quality of housing, education, health ..." No doubt, until most recently, the White House preference for constructive engagement lent support to such a position. It is one that companies have consistently advanced. Nearly fifteen years ago First et al wrote on business involvement in South Africa:

> "In their reply to the suggestion that this involvement puts a special onus on British firms to help to end apartheid, businessmen generally give one of two answers: the first is that business and politics (like sport and politics) should not be mixed, and the second that apartheid may be objectionable, but that business is 'doing its bit behind the scenes' to change it; the alternative to this reform-by-

participation would, after all, be to try to bring down South Africa's regime and consequently her economy. So let us opt for reform through business rather than for revolution" (25).

However, they could find little evidence to support the claim that industrialisation was breaking down apartheid. More recently, but perhaps with more cause to do so, Spandau found there was evidence to suggest business involvement was improving the position of blacks, if not eroding apartheid. He identifies a closing of the gap between black and white wages and has high hopes for the small but growing black middle class (26). Similarly, another South African report, by the Centre for Business Studies, writing after the Wiehann and Riekert Commissions had advocated union recognition and other labor law changes whch were accepted by the Government, found further evidence of change for the better (27). And, indeed, it must be acknowledged that black union recognition is probably the most substantial change of the Botha government to date (28).

An important feature of the constructive engagement argument is the role of codes of conduct for companies operating in South Africa. UKSATA, for example, in response to the criticism that British companies in South Africa exploit cheap labor with low wages and poor working conditions for blacks, reply "Of the many Blacks employed by British subsidiaries, 99% are paid above the lower rates set by the European Code of Conduct, and 92% are paid more than the higher rate set by that code."

The EEC Code of Conduct

The EEC Code of Conduct replaced the UK Code of Practice established by the Government in 1974, and was adopted by the governments of the EEC in 1977. The code is voluntary, but as the white paper observes "It is in the interests of companies themselves that they should maintain the best employment practices in South Africa and be seen to do so" (29). The provisions of the code refer to:

1. Relations within the undertaking, particularly the recognition and encouragement of trade unions.

2. Migrant labor - described as "an instrument of the policy of apartheid" - the effects of which employers "should make it their concern to alleviate."

3. Pay, which should exceed the Minimum Effective Level (MEL).

4. Wage structure and black advancement, particularly equal pay for equal work and training programs for blacks.

5. Fringe benefits; the improvement of employees living conditions, education and so on.

6. Desegregation at work and equal working conditions.

7. Reporting; companies should report annually on these provisions to their national government which should review progress made.

Reporting requirements of comapnies vary according to the amount of equity held by a British company and the number of black employees. The code principally refers to those with more than 50 per cent of the equity of a South African company and employing 20 or more black Africans. The 1984 analysis of companies' reports for

1982-83 is based on 142 reports from companies meeting these specifications, known as Category A. Twelve companies had not submitted reports and were expected to. These comapnies are listed and include John Brown, Gallaher and Trusthouse Forte. (It is noted however that some of these companies have stated it is not their policy to submit a report and inclusion in this list does not necessarily mean failure to comply with the standards suggested in the code.) Moreover, just as reporting is voluntary, so is compliance with the code's provisions for those that do choose to report. Current government policy is not to identify firms reporting but failing to conform with the code's provisions. However, as the Secretary of State for Trade and Industry reported in a written reply in the House "the vast majority of British companies already comply, and endeavour to meet the guidelines." Mr Channon then expressed satisfaction with the operation of the code (30).

Others are less happy with the operation of the code. While some of its provisions are seemingly quite far-reaching, they do not provide for ready implementation because they are too general and, of course, they are entirely voluntary. In other words, the code lacks teeth. Quinton Hazell, for example, reports to the Department of Trade and Industry, but in its submission in 1984 justified its failure to comply with the code by remarking that it is "a labour intensive company operating in a highly competitive market." While Pritchard Services Group, in its 1985 submision, reveals that nearly 80 per cent of its 1,926 black employees were paid below the poverty line. Pay, of course, is effectively the only pass or fail criterion in the code. The penalty for failure to comply or report, because the code is not mandatory, is criticism in the press.

The EEC code is largely concerned with employment practices. Most major American firms in South Africa are signatories of the Sullivan code, which is a little wider in scope and has been expanded to include the provision that companies should lobby vigorously within South Africa against apartheid. Both codes have, until most recently, been useful in protecting firms from criticism at home. However, although they have raised black living standards, they have not really challenged apartheid.

A Price to be Paid?

Critics of constructive engagement see little evidence of it working, and particularly with the recent unrest, it has come to be seen as tacit support for apartheid. With the South African authorities unable to suppress challenges from the black majority within South Africa, the constructive engagement argument loses its credibility. The continued violence in South Africa demonstrates, in a dramatic and forceful way, the faiure of constructive engagement to achieve any real change.

Corporate involvement in South Africa is defended by following the government's line. As this has become untenable, and with domestic pressure from shareholders and consumer boycotts and other actions increasing, companies have started withdrawing from South Africa. American companies have been more active in this respect, particularly those companies with only a limited involvement (31). For many British companies withdrawal is less easy. there is, for example, evidence of a phased withdrawal by the parents of two of the biggest banks in South Africa, Barclays and Standard Chartered. However, a complete and immediate withdrawal, while apparently still possible, would be at a substantial loss (32).

As the violence continues and the corresponding pressure for sanctions increases, it seems ever more likely that this is a price that must be paid by those Western businesses still operating in South Africa. If they choose to stay, or no longer have any choice in the matter, they must accept that their assets could be lost under a government established by the ANC. As yet, the ANC has given little indication of likely support for capitalism in its meetings with representatives of South African business. South Africa under socialism may find it needs Western business as much as white South Africa needs it now. But given the role of business in apartheid to date, it is not unlikely that a majority rule South Africa would wish to exact a considerable price in return for renewed Western corporate involvement there.

Notes and References

1. It has been reported that 754 people were killed in the first five months of 1986, compared with a total of 879 for 1985. See the report by the South African Institute of Race Relations, referred to in Beresford, David and Patrick Laurence, 'Soweto Day violence 'cost 11 lives'', The Guardian, June 18 1986.

2. Evidenced in the pro-sanctions stance of much of the national press and an opinion poll by the Harris Research Centre which found 51% in favour and 39% against. See Kellner, Peter, 'South Africa: more want sanctions', The Observer, June 15 1986.

3. Zambia, for example, as reported in Chesshyre, Robert, 'Anti-apartheid - anti-sanctions', The Observer, June 8 1986.

4. Interview conducted February 1984. Other major sources include: Foreign and Commonwealth Office, The South African Homelands (London, HMSO, 1978); Segal, Ronald (ed.), Sanctions Against South Africa (Harmondsworth, Penguin, 1964); South African Department of Foreign Affairs and Information, South Africa 1983: Offical Yearbook of the Republic of South Africa (Johannesburg, Chris van Rensburg Publications, 1983); Marais, Jan S, The New South Africa: A Unique Opportunity! (Cape Town, Maskew Miller, 1982); and of the many press articles too numerous to mention, the following were particularly useful: Hornsby, Michael, 'South Africa's bad neighbour policy', The Times, December 13 1982; Vat, Dan van der, 'Mr Botha's key to the final stage of apartheid', The Guardian, November 23 1982; Marsden, Eric, 'Yes or no, a bleak future looms after South Africa's referendum', The Sunday Times, October

30 1983; Davidson, Basil, 'Two-way bet on progress', The Guardian, December 16 1983; Jacobson, Dan, 'Workers of the world apart', The Guardian, January 28 1984; Giles, Frank, 'The 'moving staircase'', The Sunday Times, May 27 1984; a series of articles in The Guardian December 10-15 1984 by Terry Coleman, including interviews with representatives of the major white South African political parties; and Sparks, Allister, 'Kennedy to lead crusade in US over apartheid', The Observer, January 13 1985.

5. Spandau, Arnt, Economic Boycott Against South Africa: Normative and Factual Issues (Kenwyn, Juta, 1979).

6. South Arican Department of Foreign Affairs and Information, Op. cit. (note 4).

7. Anon. (The Guardian), 'The pressure for sanctions becomes inescapable', The Guardian, June 13 1986).

8. United Kingdom South Africa Trade Association (UKSATA), British Trade with South Africa: A Question of National Interest (London, UKSATA, 1982).

9. See, for instance, Bailey, Martin, 'Smaller price to pay for curbs', The Observer, June 15 1986.

10. Kapstein, Jonathan, John Hoerr and Elizabeth Weiner, 'Leaving South Africa', Business Week (international edition), September 23 1985.

11. See, for example, Losman, Donald L, 'The Effects of Economic Boycotts', Lloyds Bank Review, No.106 (October 1972).

12. Galtung, Johan, 'On the Effects of International Economic Sanctions: With Examples from the Case of Rhodesia', World Politics, Vol.XIX, No.3 (1967).

13. Huhne, Christopher, 'Hurting them may not hurt us', The Guardian, June 24 1986.

14. UKSATA, op. cit. (note 8).

15. Cornelius, Andrew, 'Numbers that don't and up', The Guardian, June 26 1986.

16. Ibid.

17. First, Ruth, Jonathan Steele and Christabel Gurney, The South African Connection: Western Investment in Apartheid (London, Temple Smith, 1972).

18. Pick, Hella, 'African threat to impose sanctions against Britain', The Guardian, June 26 1986.

19. Agenor, EEC: Life-Blood of Apartheid (Brussels, Agenor, 1980).

20. Huhne, op. cit. (note 13).

21. Losman, op. cit. (note 11).

22. Spandau, op. cit. (note 5).

23. Huhne, op cit. (note 13); Vat, Dan van der and Christopher Huhne, 'The West's solid gold opportunity', The Guardian, June 25 1986.

24. Leigh, David, Paul Lashmar and Martin Bailey, 'South Africa's secret lifeline', The Observer, June 3 1984.

25. First et al, op. cit. (note 17).

26. Spandau, op. cit. (note 5).

27. Centre for Business Studies, A Case Against Disinvolvement in the South African Economy (Johannesburg, University of Witwatersrand, 1980).

28. Less partisan sources, such as Robin Smith of Durham University Business School, also applaud union recognition. He suggested in a paper presented to a conference at York University in March 1984, that incorporation and a more peaceful solution to South Africa's problems was more likely than revolution. See Smith, Robin, 'South African Black Unions: Revolution or Incorporation?' (paper available from the author).

29. Her Majesty's Government, Code of Conduct for Companies with Interests in South Africa, Command 7233 (London, HMSO, 1978).

30. Hansard, January 25 1984.

31. Kapstein, et al, op. cit. (note 10).

32. Rodgers, Peter, 'Scoring an own goal is the risk in Standard v. Lloyds', The Guradian, June 24, 1986.