The South African Disconnection

An Examination of British Company Withdrawals from South Africa 1986-1988

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"When a company that has an interest in South Africa is a major company abroad and people in its country are messing about with sanctions legislation...it is going to take action. However if it no longer has an interest it...sits back with its arms folded because it has nothing more to protect"

(Barend du Plessis, South African Finance Minister, 4.9.87)

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THE SOUTH AFRICAN DISCONNECTION - SUMMARY

- Over 20% of British companies operating in South Africa in 1986 have since withdrawn (14 in 1986, 39 in 1987).

- This leaves 234 UK parent companies with subsidiaries in South Africa as at the end of March 1988.

- A further 19 British companies substantially reduced their South African exposure during 1986-87.

- Disinvesting companies include important names such as Barclays, Rover, BICC, Legal & General and Metal Box.

- Despite disinvestment moves, many ex-subsidiaries in South Africa continue to enjoy access to technology, products ranges, and management expertise from their ex-parent companies, an unsatisfactory situation which reduces the damage that disinvestment does to the apartheid economy.

- Disinvestment has resulted from a combination of factors

    - the deteriorating economic situation in South Africa caused largely by the costs of defending the apartheid system from internal resistance and external pressure
    - declining investor confidence in the apartheid regime's ability to maintain political 'stability'
    - intense pressures generated by disinvestment campaigners that have been strong enough to force companies to drastically change corporate policies.

- The effects of disinvestment have been fourfold

    - by removing firms with an interest in opposing sanctions, it increases the liklihood of full-scale sanctions being imposed
    - it has caused a massive capital outflow leading to investment starvation. The withdrawal of Barclays and Standard Chartered alone reduced the gross book value of British investment in South Africa by over 10%
    - it has hit business morale encouraging emigration and exacerbating South Africa's skills shortage.
    - it will cause technology decay as supplies of foreign products and knowhow are severed

- The campaign to force companies to pull out of South Africa has therefore been a visible success despite the partial nature of some withdrawals, and will have severe consequences for the apartheid economy.

- But to be fully effective disinvestment must be linked to the wider campaign for sanctions against South Africa.

- The disinvestment trend totally undermines the argument, currently being promoted by the British government, that companies are a benevolent force for change in South Africa.

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INTRODUCTION

The South African Connection, written by three prominent members of the Anti-Apartheid Movement, the late Ruth First, Jonathan Steele and Christabel Gurney, was published in 1972. It was the first systematic investigation into the critical role that British investment performed in sustaining the apartheid economy, its repressive apparatus and the apartheid system as a whole.

It rapidly became the bible of the disinvestment campaigns of the late 1970s which embraced universities, trades unions, local authorities, and churches. Foreign companies operating in South Africa were henceforth on the defensive.

Attacked as collaborators in the apartheid system, companies which had traditionally maintained that involvement in South Africa was based on purely commercial considerations now adopted a new attitude that subsequently became known as 'constructive engagement'; apartheid could be reformed by amongst other factors, the benovolent presence of British and other foreign companies. Debates about minimum wage levels and Codes of Conduct for foreign investors flourished.

Undeterred by this stance of corporate 'concern', anti-apartheid campaigners intensified pressure for disinvestment from South Africa. The following report, The South African Dis-Connection, records the success of the international campaign. For the first time since the initial flows of British capital to the South African diamond and gold mines over a century ago, we are witnessing a significant withdrawal of British companies and investment from South Africa.

Research by the Anti-Apartheid Movement has revealed that one in five British companies has withdrawn from South Africa over the past two years. Some notable withdrawals, such as Barclays, have received much attention from the media. However, in many cases this has not happened, and British companies have discreetly distanced themselves from apartheid.

The disinvestment campaign is clearly recording important successes. But it is not yet strong enough to break all corporate links with South Africa. As the campaign is stepped up to compel the remaining companies in South Africa to withdraw, this process will have a cumulative effect that will make it an important element in the in the general offensive for sanctions against apartheid.

1. BRITISH WITHDRAWALS

There are now 234 UK parent companies with subsidiary or related companies in South Africa (see Appendix 1). This is down from the 297 companies identified in the last Anti-Apartheid Movement survey of British company investment in South Africa conducted in mid 1986 (1), representing a net reduction of 63 companies or over 20%.

A total of 55 parent companies disposed of their South African subsidiaries in the period 1986-end March 1988, so cutting their direct investment linkages with the apartheid economy. These disinvesting companies are listed in Appendix 2. The additional loss is accounted for by mergers and liquidations.

A further 19 companies substantially reduced their South African exposures during 1986 and 1987, either by partial disposal of subsidiaries or by reducing their shareholdings in South African subsidiaries (see Appendix 2). These companies include NEI, Cookson, ICL, BET and Turner & Newall.

In the corresponding period from 1986 to the end of 1987, 104 US corporations sold their investments in South Africa, leaving 157 according to the Investor Responsibility Research Centre (IRRC) in Washington.

Table 1: **Numbers of companies disposing of all South African investments 1985-88.**

	UK	US
1985	6	40
1986	14	50
1987	39	54
Total	59	144
1988 (to March)	2	8
Total	61	152

After a slower initial response than American companies to political and economic instability in South Africa, the pace of British company withdrawals quickened markedly over the past 18 months and the process is continuing. Already in 1988 three major British companies, Rover Group, Suter and Metal Box, have announced disposals or reductions in South African interests. Four more companies (Allied Lyons, Alexon, British Steel and Glynwed International) have indicated their intention to disinvest during 1988.

Although most disinvestment activity has been among US and UK firms, other countries' companies have not been unaffected by the trend. Swedish sanctions have resulted in 9 Swedish firms continuing to operate in South Africa, down from 13 in 1985. Renault from France, Alpha Romeo from Italy and SHV Holdings from the Netherlands are among some of the major European companies to have withdrawn. Similarly, 55 Japanese sales agencies have closed their branches in South Africa since the start of 1986, including the Bank of Tokyo which closed its branch in early 1987.(2) The two main countries not yet affected by the trend towards corporate disinvestment are the Federal Republic of Germany and Switzerland.

The numerical preponderance of British and American companies among foreign multinationals in South Africa goes some way to explaining why these countries have witnessed most withdrawals. According to the United Nations Commission on Transnational Corporations, in 1984 over two-thirds of all foreign firms in South Africa came from Britain or the USA (406 from the USA, 364 from the UK out of a total of 1068 at that time). Of course, this dominant position has also meant that public pressure for withdrawal has also been strongest in Britain and the USA.

The roll-call of withdrawing companies includes some of the most important names in British industry and finance among them Vickers, BICC, Barclays, Legal & General, John Mowlem, and Rover. Of particular significance have been the withdrawals of Barclays Bank (1986), Standard Chartered (1987) and Hill Samuel (1986-87). Many smaller companies have taken the departure of these banks as an indication of South Africa's poor long-term investment prospects, as well as a warning of the strength of public anti-apartheid campaigns, and have followed suit.

On the US side, the register of disinvestors contains many corporate heavcyweights such as Exxon, IBM, GM, Honeywell, AT & T, and ITT.

Today foreign companies continue to employ between 400,000 and 500,000 people in South Africa and to dominate strategically vital sectors of the economy such as oil, electronics, capital goods and computing. They also have a significant stake in the mining industry (especially coal and base metals), mining equipment, mechnical engineering and insurance.

A total of 33 UK companies also operate in Namibia, which is governed illegally by South Africa; 10 with subsidiaries and 23 via representative offices. (See Appendix 3). The most important sectors of the Namibian economy are in the hands of foreign corporations, notably petroleum, mining, insurance and finance, and commercial agriculture. For British companies, it is usual for Namibian operations to be an offshoot of South African interests. Namibian interests therefore have tended to be included in any withdrawals from South Africa.

2. PARTIAL WITHDRAWALS

The rapid departure of foreign companies from South Africa represents not only a massive vote of no confidence in the apartheid economy and its future prospects, but also a major victory for the efforts of the Southern African Liberation Movements, the United Nations, the OAU, and Anti-Apartheid Movements seeking to promote the isolation of apartheid South Africa over the whole range of its international connections, including its vital corporate linkages.

Nevertheless, disinvestment moves have not all been what they seemed at first sight. Withdrawals have generally been structured to ensure the twin result of minimising adverse impact on the apartheid economy, and guaranteeing a continuing foothold in South Africa for the parent companies.

Companies sold by departing foreign parents have not necessarily ceased operating. Indeed, many ex-subsidiaries of foreign companies still function either as independent units partially or wholly owned by their management, or as part of larger South African conglomerates. And many continue to manufacture, assemble or market their ex-parents' products under license, franchise, or other arrangements. In this sense, disinvestment, as practiced so far, has rarely led to total disengagement from the apartheid economy, and so not had the maximum impact on the apartheid regime.

Some 50% of former foreign-owned subsidiaries have been bought by South African corporations (3). For example Barclays and Ford have passed in to the ownership of the Anglo American group, and Standard Chartered was bought by Liberty Life. Mergers with local corporations present a variation on this trend. Thus Cookson has merged its interests with Anglo, and Prudential with Liberty Life. Such moves allow companies to adopt a lower profile without actually reducing their economic stake or disinvesting.

It has been estimated, that 28% of withdrawals resulted in management buy-outs (4). IBM, General Motors and Rover Group have taken this course. A handful of companies have set up trusts to administer their operatioons or have attempted to sell to specifically black businesses, among them Coca Cola and Exxon.

In all the cases mentioned above, the ex-subsidiary continues to have access to products, or components or managerial support from overseas, a situation of particular significance since few South African industries are self-sufficient of foreign inputs. IBM in South Africa (now renamed as ISM) still markets IBM computers, GM (now Delta) assembles GM models as before from imported parts including Opel engines from Germany, Barclays (now First National) still has credit lines for trade-related finance and management training schemes available with Barclays PLC. NEI's reduction in its shareholding in its South African subsidiary left 'technology arrangements with its South African offshoots undisturbed' [Financial Times 30.8.86].

A recent blatant example of a firm that has nominally reduced its holdings in South Africa without affecting the nature of its commercial linkages is ICL. In January 1988 ICL merged its South African subsidiary, in which it held 93%, with the South African company Malbak, so reducing ICL's holding in the new hybrid company to 47%. ICL's statement to the British press spoke of "the sale of a substantial share of its South African subsidiary". But an internal management brief admitted selling "whilst maintaining control". The press statement released in South Africa said "The new organisation will continue to market the full range of ICL products, sourced both from local manufacture and from ICL in the UK". In cases such as this, if commercial connections were cut, the South African offshoot would soon be unable to function.

Moves characterised as withdrawals or disinvestment can be deceptive, and often constitute a change of ownership rather than a cessation of operations. With licence, franchise, and other agreements, economic relations with South Africa are being restructured away from direct investment and towards commercial linkages. In other words British and US corporations are beginning to copy arrangements under which Japanese firms have operated since 1965 when direct investment was banned by the Japanese government. Of course these restructurings are designed to ensure that companies continue to supply important equipment and services to the South African economy and the apartheid regime, and to profit from such trade.

3. REASONS BEHIND THESE DEVELOPMENTS

Companies invariably give bland commercial reasons for their departure from South Africa - "industrial logic"(Cookson), "strategic requirements "(Simon Engineering), "the commercial political situation"(Hill Samuel). Certainly only a handful have withdrawn citing the unacceptability of operating under the apartheid system.

However, a 'commercial' decision to leave South Africa is the result of a complex calculation involving assessment of the current profitability of the South African economy, its future prospects given the escalation of its political crisis, and public and shareholder resistance to companies in South Africa.

There is no doubt that the apartheid regime's economic crisis has provided the context for the disinvestment trend. Yet the most usual corporate response to a recessionary climate is retrenchment not disinvestment. That companies have responded to South Africa's economic crisis by disinvestment, is due to the unique position of South Africa as a target for international sanctions campaigners.

i. Economic background

For investors, the South African economy has been perceived as increasingly unstable. Since 1981, when the gold price plummeted from over $850 per ounce to around $300, the South African economy has been battered by the combined effects of recession, popular resistance, the war in Namibia, tightening if sporadic international sanctions, and the rising costs of defending the white minority regime and administering the apartheid system.

Annual growth has declined progressively over the past three decades from an average of 6% during the 1960s through 3% during the 1970s to about 0.5% for the period 1982-86 (5). More significantly, the annual return on foreign investment capital that reached 15% pa in 1967 had dwindled to virtually nothing by 1984. Profit levels have been undermined by persistent high inflation, currently running at around 15% per annum.

Not only has the gross value of investments in South Africa declined through the 1980s as the rand depreciated against major currencies, but also net earnings due to British companies in South Africa have fallen particularly in relation to global trends. From 1984-1986 net earnings from South Africa declined by 19% against a 96% increase in net earnings from the world as a whole in the same period (6). Thus companies have had less to lose by disinvesting and have been more willing to countenance the possibility.

Table 2

British investment and earnings in South Africa 1982-86

	UK net investment in SA as %ge of world	Net earnings due UK companies in SA as %ge of world
1982	9.1	13.8
1983	8.6	13.1
1984	2.0	5.1
1985	2.2	4.7
1986	0.7	4.2

Source: British Business 11 March 1988

[The drastic fall between 1983 and 1984 is due to the incorporation of oil company figures for the first time]

ii. The economic costs of apartheid

Economic recession in South Africa has partly resulted from global conditions but has been intensified and extended by the disastrous policies pursued by Pretoria.In February 1988, the Financial Mail concluded that 'Government spending is out of control and damaging the economy. Saving is collapsing' (7). Indeed, public debt rose from R20 million in 1980 to R54 million in 1987. The government deficit before borrowing increased from 2.6% of GDP in 1981 to 14.6% in 1986, as a result of the regimes's spendthrift policies associated with defending apartheid from internal resistance and external sanctions. For example, according to Barend du Plessis, Minister of Finance, 'billions of rand' are tied up in South Africa's strategic oil reserve (8).

'Defence' spending in South Africa accounts for between 25 and 30% of total government spending, or 8-9% of GDP, compared with 3.1% of GDP in the Federal Republic of Germany or 4% in France. This ignores a substantial amount of security expenditure not covered by the official defence budget. Even so, the 'defence' budget has increased by 500% in the decade 1975-1985, and rose by 22% again in the 1988 budget, an increase that predates the costs of the present invasion of Angola. The regime's overall public expenditure rose at an average rate of 18.6% a year from 1981 to 1986 (9).

The high levels of government spending have burdened the country with debt. Prior to the 1985 debt repayments freeze, the government deficit was covered by foreign borrowing. With this source of capital blocked by informal or official bans on new lending to South Africa, and funds flowing out due to disinvestment, the regime is responding with a programme of privatisation, a strategy designed to mobilise funds locked in South Africa by exchange controls and divert them to the government exchequer. The other alternative for reducing government deficit - cutting 'defence' expenditure or dismantling the apartheid system's administrative duplication is not a prospect acceptable to the Botha regime.

Beyond its economic inefficiencies, the apartheid system places additional burdens on companies in the form of integration within its security structures. As the 'defence' apparatus of apartheid has burgeoned, so have the demands made on companies to contribute towards it. White staff are conscripted for annual military service, costly security systems must be installed at plants and factories as part of the National Key Points legislation, and managers are seconded on to regional Joint Management Centres that act as defence co-ordinating committees. All add to the costs of operating in South Africa.

Finally, the unprecedented levels of trade union activity that South Africa has witnessed in the past five years in support of industrial and political demands , have increased the costs of operating in South Africa. Unionised workers won average wage increases of 18% during 1987, and have shown themselves able to mobilise on a massive scale. The number of working days lost to strikes and stayaways in 1987 leapt to nine million from just over one million in 1986. For foreign investors, South Africa is no longer a haven of cheap and controllable labour.

iii. Public pressure

Unfavourable though South African economic indicators may be, the country remains Britain's largest sub-Saharan export market, and for industrialists it is still perceived as the economic powerhouse of the region, consisting of both a valuable internal market, and an access point to the African hinterland. Its relatively developed infrastructure and regional dominance militate against economic disinvestment pressures. In this context, the fact that so many firms have pulled back is a sign of the strength of the anti-apartheid disinvestment campaign.

Indeed, the restructuring of corporate linkages with South Africa as explained in section 2 above, is itself indicative of how firms have been forced to redefine commercial interests in terms that go some way to satisfying the demands of public disinvestment campaigns. Desire to retain access to the South African market has been tempered by need to distance themselves from apartheid, and has resulted in the negotiation of residual licensing agreements and franchises, and the arrangement of only partial withdrawals.

For multinational corporations, non-equity connections have a number of benefits: they are less traceable than direct investment and therefore less liable to attract the attention of campaigners, they present less financial risk, and the royalties paid on licenses etc can be transferred out of the country through the commercial rand, thus offering a means of withdrawing funds blocked by the dual exchage rate system. They present a solution to the perceived requirements of minimising financial risk and public condemnation.

The pressures generated by campaigners on the issue of apartheid have been unprecedented in forcing changes in corporate policy. Public awareness campaigns, share sales, and boycotts have all taken their toll on companies and introduced new factors into boardroom equations. Companies have become extraordinarily concerned about the damage that association with apartheid may do to their public reputations, and about the costs incurred from being on the receiving end of a disinvestment campaign.

Problems encountered by companies have been several. The climate of opposition to South African links has affected companies internally and externally. In many cases, personnel have been unwilling to go to South Africa, including Prudential UK staff who refused to accept secondment to South Africa 'because of the country's political problems' (10). Many trades unions have persistently pressured firms to cut their connections with South Africa and have promoted disinvestment initiatives.

Firms have had to contend with angry shareholders and concerned consumers, whose criticisms undermine public relations efforts, and which soon translates into commercial damage. It all contributes to the so-called hassle factor whereby the issue of apartheid comes to require the allocation of management resources out of proportion to its importance in purely commercial terms. As one US executive said 'Although we get 10% of our profits from South Africa, its taking up 50% of our boardroom time' (11).

Full-scale boycott activity has had dramatic effects on balance sheets and corporate images. Barclays was forced to admit that "our customer base was beginning to be adversely affected" by the boycott campaign, somewhat of an understatement considering that its share of the student market had fallen from 27% to 17% between 1983 and 1985 as it become notorious as the 'apartheid bank'.

Disinvestment, in the sense of share sales, have similarly produced dramatic results. A survey conducted in 1987, found that half of the local authority pension funds approached, managing funds worth some £13 billion, imposed restrictions on investing in South African-related companies (12). Similar policies have been pursued by trades unions, universities and other investment funds, especially the new 'ethical' funds. In the USA, university, municipal and state divestment legislation has forced a policy turnaround on the part of many large corporations.

Under these pressures, corporate responses have become more sophisticated and co-ordinated especially among the larger multinationals. Shell in the US has taken on a professional 'boycott-busting' consultancy called Pagan International which worked for Nestles against the baby milk boycott, to counter the campaign against it. Others have banded together in organisations such as BICSA (British Industry Committee on South Africa), which produces material seeking to justify the activities of firms in South Africa.

Within the context of South Africa's economic crisis, disinvestment pressure has often been the decisive factor in determining company decisions. Where pressure has been intense, causing loss of business and reputation, companies have been keen to withdraw, sometimes taking a substantial loss in the process. The book value of Barclays' South African operations was £100 million in 1985. It sold out in 1986 for £82 million.

Economic relations between British companies and South Africa have become more convoluted and discreet as a result of public concern over British policy towards South Africa. Companies have been caught between the need to avoid association with South Africa while not appearing to cave in to disinvestment pressure, and economic incentives of reducing financial exposure while maintaining outlets in and access to the South African market.

4 IMPACT OF DISINVESTMENT ON SOUTH AFRICA

Despite the partial nature of current disinvestment trends, commentators are agreed that as Gerhard de Kock, Governor of the South African Reserve Bank, has put it 'the bottom line is unfavourable to South Africa'(13).

The impact of disinvestment on the apartheid economy may be separated into those effects evident immediately, and those that will become apparant only in the medium to long term. The main economic effects are: capital loss, technology decay, and shortage of skills. In addition there are political drawbacks for the apartheid regime's attempts to resist sanctions.

i. Increased liklihood of sanctions

In Britain organisations such as the UK-South Africa Trade Assciation (UKSATA) and the British Industry Committee on South Africa (BICSA), comprising British companies active in South Africa, have taken the lead in lobbying against sanctions proposals. But as companies dispose of investments in South Africa, they have a far less permanent stake in the country, and less of an interest in opposing sanctions. Barend du Plessis, Minister of Finance, outlined the problem in South Africa's white Parliament in September 1987:

"A hard-nosed attitude to disinvestment is not a very clever attitude, because accompanying the loss of the involvement of that foreign investor in South Africa is his managerial expertise, his entrepreneurship, his technology and also his interest in South Africa. When a company that has an interest in South Africa is a major company abroad and people in its country are messing about with sanctions legislation...it is going to take action. However, if it no longer has an interest it...sits back with its arms folded because it has nothing more to protect. That is why we must approach the whole issue of disinvestment with the necessary circumspection" (14)

The departure of foreign corporations from South Africa also makes it more likely that full-scale sanctions would be more effective should they be implemented against South Africa. As was shown in the case of Rhodesia, firms with a commercial interest in a country will also have an interest in busting sanctions.

ii. Investment

South Africa has been a net exporter of long term capital since the mid 1970s. This has been exacerbated by the effect of disinvestment and debt repayments. Gerhard de Kock, Governor of the South African Reserve Bank, complained that "the actual outflow of capital involves enormous sums. We're talking something like R15 billion in 1985 and 1986." (15). Of this figure, R11.5 billion left South Africa after the reintroduction of exchange controls in September 1985. The outflow has continued. During the first three quarters of 1987, R1.3 billion net of South African securities were sold by non-resident investors (16).

Theoretically, investment capital can only be transferred out of the country via the 'financial' rand, the rate of which is dependent on the flow of funds into the country. Thus if a disinvestor wants to move capital out, but insufficient incoming funds are available to match it, the financial rand rate falls, effectively penalising the disinvestor. The financial rand is currently worth only 75% of the 'commercial rand' which is used for other trade transactions, meaning that a disinvesting companies suffer a discount of 25%. The converse is that investors to South Africa receive a premium on converting currency into rand.

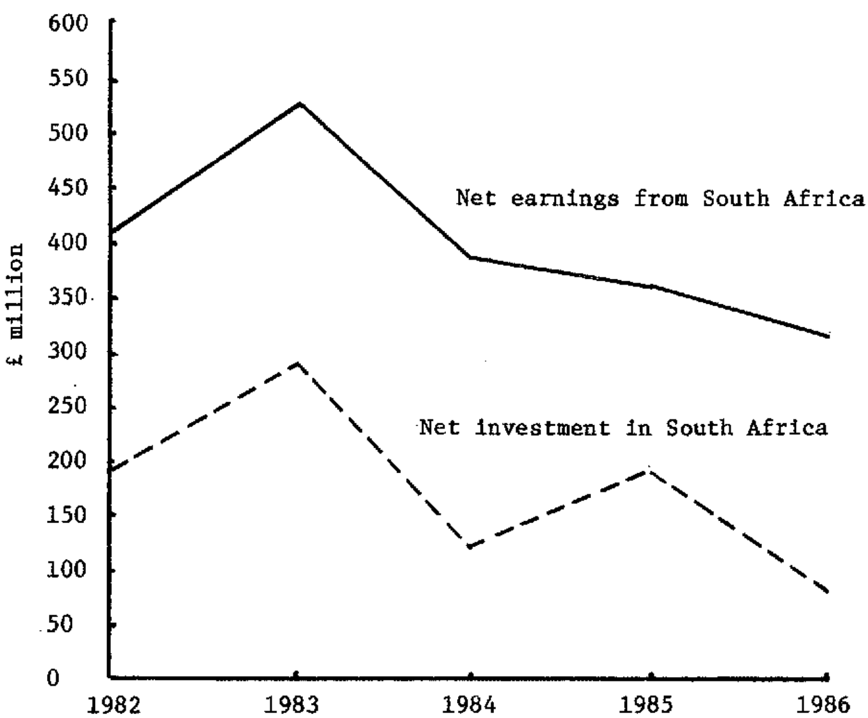
The continuing outflow of funds shows that even the premium available on investment through the financial rand is failing to attract new investors, and that foreign companies are finding methods of evading exchange restrictions by employing instruments such as extra-large dividend repayments, transfer pricing and royalty payments. The 1988 South African budget included tax changes designed to penalise companies paying themselves big dividends prior to disinvesting.

There are no up to date figures for the value of foreign direct investment in South Africa, but in 1985, the South African Reserve Bank put it at R28 billion (then worth £9.5 billion). Total foreign investment (direct and indirect) was R83 billion (£28 billion). The value of British direct investment in South Africa, which is generally accepted to represent 40% of all foreign capital in South Africa, was estimated at £2.7 billion in 1986 according to BICSA, or £2.9 billion according to AAM figures. This was a down from approximately £6 billion in 1980, a fall due both to rand depreciation and to disinvestment.

Already by the first half of the 1980s, South Africa was losing its place as a major destination for UK overseas investment, falling from 3rd place in 1982 to 15th in 1986, meaning that disinvestment and depreciation were not being covered by new inflows of capital or reinvested profits.

Table 3.

British company earnings and investment in South Africa 1982-86



Indeed the dramatic impact of company withdrawals on the book value of British investment in South Africa is apparent in the cases of Barclays and Standard Chartered Bank. They received £82m and £155m respectively for the sale of their subsidiaries, making a capital outflow of £237m. This represented a reduction in book value of £300m, meaning that just these two withdrawals caused a 10% decline in the book value of UK direct investment in South Africa, according to AAM figures (or 11% using BICSA figures).

Since these withdrawals a number of other large disinvestments have occurred notably Consolidated Gold Fields sale of 10% in Gold Fields of South Africa, worth £82m.

On the American side, President Reagans's report to Congress on the results of the US Comprehensive Anti-Apartheid Act noted that "The value of US direct investnment in South Africa has been cut nearly in half by disinvestment - from $2.4 billion in 1982 to approximately $1.3 billion in 1986. By now [mid 1987] it is probably less than $1 billion."

Equally serious is the removal of access to future sources of capital that company withdrawals implies. Already, South Africa is excluded from international capital markets due to its imposition of a unilateral freeze on debt repayments in 1985. New investment capital from multinationals will also be cut off. As the Weekly Mail commented "Disinvestment has meant the withdrawal of foreign investment finance from South Africa, and more importantly, it means that there will be no new investment from these sources'" (17).

The Financial Mail, South Africa's premier business periodical has cited capital scarcity as one of the four impediments to economic growth, the others being low investor confidence, weak exports and trade union militancy. (18).

Disinvestment has combined with a crippling lack of confidence among domestic South African investors to produce drastic falls in the value of South Africa"s capital stock. Total real gross fixed investment fell by 17.5% during 1986.

The deficit on South Africa's capital account occasioned by disinvestment and debt repayment has necessitated the running of a large current acount surplus. But falling export volumes due to international sanctions are squeezing the trade surplus, a trend which has led to speculation of a severe balance of payments crisis later in 1988. As the Standard Bank Review stated in February 1988 'a current account deficit cannot be allowed to emerge though because a substantail trade surplus is needed to meet repayment obligations under the debt standstill agreement'.

iii. Morale

The departure of large global corporations, often with long associations with South Africa, has undoubtedly had a major impact on the morale of the white business community, contributing to a more realistic, if still woefully inadequate, appraisal of the need for fundamental change. As Anthony Sampson comments, Barclays withdrawal "marked a withdrawal not so much of technology or management but of confidence and credit, in the literal sense of trust, which is the bankers life blood". (19).

There is little sign that the business community is rallying to the regime in the face of international condemnation. Indeed, in January 1988, Tony Bloom, head of the Premier Group, announced his intention to leave South Africa, so following the footsteps of Gordon Waddell of JCI. Both were perceived as 'liberals' (if only within the South African context) and made it plain that they saw little future in the country under its present course.

Disinvestment has both contributed to South Africa's acute skills shortage and has been encouraged by it, especially in areas such as accountancy, computers and systems engineers. According to official South African figures, in 1987 emigrants and immigrants in specific key categories were: scientists 133 (86 immigrants), engineers 481 (351), computer scientists 131 (65), accountants 222 (64). (20). Over 20% of South Africa's actuaries left the country in 1986 (21). Prudential specifically blamed lack of personnel on its decision to merge with Liberty Life.

As foreign corporations leave South Africa, so the possibility of advancement through an international career structure goes with them. Ambitious skilled personnel are therefore emigrating, and w ith supplies of personnel no longer available from foreign companies, South Africa is caught in a situation in which equipment cannot be modernised due to lack of skills, and cannot be imported due to lack of foreign exchange.

iv. **Technology**

South Africa has depended on access to foreign technology for the development of its industrial capacity. It is particularly reliant in areas such as capital goods, electrical engineering and computers. Although residual licensing deals will dilute the possibility of technology starvation, there is a strong fear among South African industrialists that the country will suffer from technology decay to become something of an economic backwater. Some press reports have suggested that South Africa may be forced to ignore international copyright conventions, especially in the computer software sector in order to maintain access to state-of-the-art developments. (22)

The computer sector is one of the most vulnerable to technology retardation. Although the departure of IBM and other computer corporations has made little difference to the availability of foreign electronics technology as yet, disinvestment introduces uncertainty into the question of future supply. Many IBM users in South Africa have felt it necessary to change to other suppliers. The possibility of further sanctions against computer supplies to South Africa only exacerbates established fears.

CONCLUSION

Apart from the patchwork of international sanctions measures applied against South Africa with varying degrees of commitment by South Africa's trading partners (23), the wave of company disinvestments has been the most visible sign of progress in isolating the apartheid regime economically. It is no small feat to have secured the withdrawal, partial or otherwise, of 40% and 20% of US and UK companies respectively from South Africa in the space of two years.

The full potential impact of this development has not yet been realised because of the incompleteness of many moves and the failure of the international community to impose effective sanctions to re-enforce commercial isolation. Yet it is a development with profound implications for the conduct and structure of South Africa's international economic relations.

The business community has reacted to the disinvestment campaign with increasing unease and an ebbing conviction of the worth (commercial and political) of remaining in South Africa. One after another of their arguments for staying have been undermined by events. The Codes of Conduct, which were designed as a forum to allow foreign companies to present themselves as good employers, have become discredited, and in the case of the US Sullivan Code, repudiated by its founder. Corporations in South Africa have been bullied and spurned by P W Botha in cases when they have aligned themselves with liberal opposition forces, and the general repressive political conditions have continued to deteriorate around them. The contradictory nature of their position in South Africa was spelled out by John Wilson, Chairman of Shell South Africa. "We have lost our naive belief that that we as a multinational can pressurise the legislature to break down the barriers of apartheid. But we cling to the belief that this will happen" (24).

Instead of the business community itself, it is now British government ministers who are championing the benevolent role of foreign capital in South Africa. In February 1988, Sir Geoffrey Howe claimed in the House of Commons that "One other equally unfortunate consequence of sanctions has been the withdrawal from South Africa of about half the American companies that had interests there. What has been the result of that? It has been bargain basement takeovers by South African management, now free from external pressure. Many of the progressive programmes of liberal employment practice in which foreign companies have taken a lead have been discontinued" (25). Two days later his colleague at the Foreign Office, Mrs Lynda Chalker (who had obviously read the same brief) said "The effect of disinvestment by foreign companies has meant that many shares were picked up cheaply by Afrikaners who will not continue the social programmes and the education and health programmes which have been helping the black community to advance" (26).

Yet there is no evidence whatsoever that the internal improvements in working practices and wages, and the 'social programmes' that some multinationals have so publicly introduced have had any impact on the apartheid system as it is experienced by the majority of black people in South Africa and Namibia. Indeed, far from challenging the foundations of apartheid, foreign investment in South Africa has taken place concurrently with a tightening of the system, and an escalation of the crisis throughout the whole Southern African region.

It is true that there have been minor reforms such as removal of some job reservation by race, recognition of trades unions, and improvement in skilled wage levels, but the significance of these developments is minimal and peripheral to the real struggle against apartheid which is about fundamental political and human rights.

To see companies as neutral in the context of apartheid or as a force for change, is to ignore the structure of South Africa's economic system. Crucial industries such as chemicals, petroleum, iron and steel, electronics, arms, mining and motor vehicles have not only been developed by virtue of foreign capital and technology inputs, but continue to be dominated by foreign interests. Until recently, these overseas parent companies have been more than willing to operate within the constraints of the apartheid system.

After a century of foreign investment, the South African economy is now geared towards maintaining the dominance of the white majority almost without reference to any other considerations, and the apartheid regime is in a position to direct domestic industry for its military and other strategic purposes. The foreign companies remaining in South Africa and Namibia, are not simply passively acquiescing to this situation but are actively providing the financial, technological and managerial tools which allow the regime to perpetuate racial tyranny.

Even at its present partial level, disinvestment is an important counter to the support which the regime derives from foreign firms. In the long term, it is likely to have severe consequences for the apartheid economy. As Business Day in South Africa has commented, 'a sustained disinvestment will gnaw away at South Africa's economic substance, as each withdrawal breaks a relationship to the West and extinguishes another light'(27).

But disinvestment is certainly no substitute for effective sanctions, and has very different repercussions than would the imposition of sanctions. Whereas disinvestment is likely to engender a form of creeping paralysis in the apartheid economy by attacking its corporate fabric, effective sanctions would have an overwhelming impact on an economy that is critically dependent on foreign trade and investment in a handful of key commodity areas. As noted above, though, disinvestment is creating a favourable situation for further sanctions to be imposed by reducing the strength of the corporate lobby against them.

Disinvestment is both a reflection of the depth of the apartheid system's crisis, and a further contribution towards it. But in spite of the significant level of company withdrawals achieved by anti-apartheid forces, the campaign needs to be intensified and linked to the implementation of further effective sanctions if it is to provide the maximum possible support for the liberation struggle in Southern Africa.

NOTES

1. See UK Companies and their Subsidiary or Related Companies in South Africa and Namibia, Anti-Apartheid Movement, September 1986.

2. Details from The Economic Impact of Sanctions Against South Africa, Starnberger Institute, July 1987

3. MacGregor Research Services, South Africa quoted in Merle Lipton, Sanctions and South Africa, Economic Intelligence Unit 1988

4. Ibid

5. Financial Mail, Johannesburg, 15.1.88

6. Figures from British Business, 11.3.88

7. Financial Mail. 5.2.88

8. Mercury, South Africa, 12.11.87

9. Weekly Mail, Johannesburg, 12.2.88

10. Financial Times, 4.9.86

11. Financial Times, 2.8.85

12. Local Government Chronicle, 27.11.87

13. Leadership, South Africa, Vol 6 No 2 1987

14. Debate in SA Parliament, 4.9.87

15. Leadership, op cit

16. South African Reserve Bank Quarterly Bulletin, December 1987

17. Weekly Mail, 24.12.87

18. Financial mail, 15.1.88

19. A. Sampson, Black and Gold, London 1987

20. Financial Mail, 4.3.88

21. Financial Mail, 15.5.87

22. Financial Mail, 26.2.88

23. See Sanctions Begin To Bite, Anti-Apartheid Movement 1987, for discussion of current sanctions and their impact on South Africa.

24. Chairman's Address, Shell South Africa Business Report 1986.

25. Hansard 29.2.88, Col 678

26. Hansard 2.3.88, Col 972

27. Business Day, quoted from Neue Zurcher Zeitung, 8.7.87.

APPENDIX 1

UK COMPANIES WITH SUBSIDIARIES OR ASSOCIATES IN SOUTH AFRICA

(D denotes dormant subsidiaries)

Abbey Life Group D
Anchor Chemicals
Andrew Weir & Co
Apaseal D
APV Baker
Associated Octel

BAT Industries
Bardsey
Bartlett Group D
BBA Group
BM Group
Beecham
Berisfords Group
BET
BETEC
Blackwood Hodge
Blue Circle
BOC
Boosey & Hawkes
Boots
Bowthorpe Holdings
BPB Industries
Brikat Group
British & Commonwealth Holdings
British Aviation Insurance
British Petroleum
British Steel
H. Bronnley D
Brown Shipley Holdings
BTR
Burmah Oil
Burnett & Hallamshire

Cadbury Schweppes
Cazenove
Centrovincial Estates
Chamberlain Phipps
Charter Consolidated [1]
Chloride
C & J Clark D
Coates Brothers
Coats Viyella
Commercial Union
Conder
Consolidated Gold Fields [2]
Cookson
Courtaulds
Coutinho
Croda
Curnow Shipping

Davies & Metcalfe
Davy Corporation
Dawson International
Delta Group
Desoutter Brothers
Dixons
Dobson Park Industries
Dom Holdings
Dowty Group
C F Doyle
DRG
Drummond Group

ERF (Holdings)
Edward Lumley Holdings
B Elliott
Evode

J H Fenner
Ferguson Industries
Fisons
FKI Babcock
Foseco Minsep
Frank Fehr
Alex Fraser & Sons

G Applegate & Sons
GEI International
General Accident
GEC
George Wimpey
Gestetner
Glaxo Holdings
Glynwed International
Goode Durrant Murray
Grand Metropolitan
Great Universal Stores
Greig Fester
Guardian Royal Exchange
GKN
Guinness

Haden Group
Hall Engineering
Hanson
Hawker Siddeley
C E Heath D
Henderson Group
Hickson International
Hodder & Stoughton
Hogg Robinson
Holt Lloyd International
Hopkinsons Holdings
Howden Group
Hunslet (Holdings)
Hunting Associated Industries

IBL
ICI
Inchcape D
Innoxa
International Leisure Group

James Burroughs
James Neill Holdings
Johnson & Firth Brown
Johnson Matthey [3]

Laird Group
Lancer Boss Group
Laporte Industries
Laycock International Holdings
LEP Group
London Finance
London International Group
Lonrho
Lopex
Low & Bonar
Lucas

MacMillan
Manro Holdings
Marley
Maxwell Communications Corporation
Mercury International
Metal Closures
Midland Bank
Minet Holdings
Morceau Holdings
Morgan Crucible
MS International

National Employers Mutual General Assurance
National Pig Development Co
Neepsend
NEI
Newman Industries
Norcross
Norgine
Norton Opax
Norwich Winterthur [4]

A Oppenheimer
Organisation Development

P A Holdings
Park Place
Pearson
P & O
Pilkington
Plessey
Portals Holdings
Powell Duffryn
PWS Holdings

Racal
Ratcliffe Industries
Reckitt & Colman
Redland
Reed International
Renold
Rio Tinto Zinc
Robin Marlar
Rowntree Mackintosh
Royal Insurance

Saatchi & Saatchi
Scapa Group
Sedgewick Group
Senior Engineering
Shell Transport & Trading
Siebe
Smith & Nephew
Spirax Sarco
Stanley Gibbons Holdings
STC
Stock Exchange
Sun Alliance
Suter
Systems Reliability

Tarmac
Tate & Lyle
Telecomputing
Telephone Rentals
Thomas Christy
Thomas Locker
Thomas Meadows International
Thomas Robinson & Sons
Thomas Walker
Thermal International Holdings
Thorn EMI
TI Group
Tioxide [5]
F H Tomkins
Tootal
Trafalgar House
TSB
Tufnol Industries
Turner & Newall

Unilever

Wellcome Foundation
Wellman
Western United Investment Co
Wheelabrator International
Whessoe
William Collins
Williams Holdings
Willis Faber
Winn & Coales (Denso)
Wittington Investments
Wolseley
Wright Dental

Yule Catto
600 Group

UK COMPANIES WITH SOUTH AFRICAN SUBSIDIARIES OR ASSOCIATES WHOSE ULTIMATE PARENT IS BASED ABROAD

Addis	(Addis , Neths)
Albright & Wilson	(Tennoco, USA)
Anglo African Investments	(W & A Investments, South Africa)
C T Bowring	(Marsh & McLennan, USA)
British Jeffrey Diamond	(Dresser Industries, USA)
Brown Boveri Kent	(ASEA Brown Boveri, Sweden/Switzerland)
Bunge & Co	(Oronte SA, Panama)
Consolidated Pneumatic Tool Co	(Chicago Pneumatic Tool Co, USA)
Exchem	(Explosifs et de Produits Chimiques, FR)
Highams	(Largs, IOM)
Keep Brothers	(Elders Finance Holdings, Australia)
Klippon Electricals	(Cocharbel, Lux)
Marmon	(Marmon Holdings Inc)
May & Baker	(Rhone-Poulenc, FR)
Michelin D	(Generale Etablissements des Michelin, FR)
Pirelli UK	(Pirelli, Italy/Switzerland)
Pritchards	(Hawley Group, Bermuda)
Record Holdings	(Bahco, Sweden)
Rentokil	(Sophus Berendsen, Denmark)
Roussel Laboratories	(Hoechst, FRG)
Schlumberger Measurement & Control	(Schlumberger Ltd, USA)
Twinlock	(ACCO World Corp, USA)
UCB	(UCB, Belgium)
Unbrako	(SPS Technologies, USA)

1 Part-owned by Anglo American Corporation, South Africa
2 Part-owned by Anglo American Corporation, South Africa
3 Part-owned by Anglo American Corporation, South Africa
4 Part-owned by Norwich Union, UK
5 Co-owned by ICI and Cookson

APPENDIX 2

UK COMPANY DISINVESTMENT FROM SOUTH AFRICA 1986-88

Companies that have disposed of all subsidiaries

1986

Allied Colloids
Aspro Nicholas
Austin Knight
Barclays Bank
Begg Cousland
Ellerman Lines
Lancer Boss
Marshalls Halifax
MK Electric
Sanderson, Murray & Elder
Szerelmey
Thomas French
Trusthouse Forte
Vickers

1987

Bailey & Swinfen Holdings
Henry Barrett
BICC
British Land Co
British Vita
Bulmer
Brent Chemicals
Bunzl
Brikat Group
CAP Group
Dalgety
Eaton Ltd
Evered Holdings
Fine Art Developments
Gallaher
Hoover
IMI
Jacksons Bourne End
John Mowlem
Kalamazoo
Legal & General
Manders Holdings
McKechnie Bros
Meggitt Holdings
Norwich Union
Pearl Assurance
Perivale Gutermann
Rank Xerox
RHP Group
Rotaflex
Simon Engineering
Staveley Industries
Standard Chartered Bank

Thomson Publications
TI Group
United City Merchants
USMC Corp
Wilkinson Sword
Williams Holdings

1988

Rover Group
Metal Box

Companies that have partially disinvested via the sale of some subsidiaries or a reduction in holdings)

1986

APV Holdings
BET
Cookson
Delta Group
B Elliott
Hill Samuel
Hunting Assoc Industries
Johnson Matthey
NEI
Prudential
Turner & Newall

1987

APV Baker
BET
Consolidated Gold Fields
Electronic Rentals
Hall Engineering
McKechnie
Suter
Turner & Newall

1988

STC (ICL)
Suter
BET

Intention to disinvest during 1988

Alexon Group
Allied Lyons
Glynwed International
British Steel Corporation

APPENDIX 3

UK COMPANIES WITH SUBSIDIARIES, ASSOCIATES OR OFFICES IN NAMIBIA

(S=subsidiary, A=associate, O=representative office)

Acrow Ltd	O*
Beecham	S
Blackwood Hodge	O
Blue Circle Industries	O
BOC	S
Burmah Oil	O
British Petroleum	S
BTR	S
Chloride Group	O
Consolidated Gold Fields	A
FKI Babcock	S
GEC	O
Gestetner	O
GKN	O
Grand Metropolitan	O
Guinness	S
Hanson Trust	O
ICI	O
Lucas	O
Marley	O
Midland Bank	O
John Mowlem	O*
NEI	O
Pilkington	S
Racal	O
Reckitt & Colman	O
Rio Tinto Zinc	S
Rover Group	O*
Rowntree Mackintosh	O
Shell	S
STC	S
Suter	S
Thorn EMI	O

* possible withdrawal

(Source: Labour Research, Nov 1987)

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