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UNITED STATES TRADE WITH SOUTH AFRICA AND
THE ROLE OF UNITED STATES BANKS**

An analysis
by
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The views expressed are those of the author.

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Introduction

This paper is a brief analysis of United States exports to the Republic of South Africa and is being circulated in order to clarify conceptions regarding the nature and significance of trade with South Africa, and the role that United States banks play in financing that trade. This analysis addresses the question of whether or not recommendations to end bank loans to that country should include trade related loans as important to the maintenance of apartheid.

The analysis makes three major points:

(1) agreements with banks regarding restrictions on loans to South African Government-owned entities should include trade financing to these organizations. These agreements should include trade loans granted to the American exporter and not simply to the South African purchaser;

(2) a rationale that trade-related loans are "safe" is based on the impression that trade is carried on in non-essential goods, "ketchup and tomato paste" as one bank official described it. In fact, strategic goods predominate in United States trade with South Africa. Purchases are particularly heavy in power generation equipment, tele-communications equipment, railway equipment, computers, aircraft (the largest single category of imports), construction, mining and automotive equipment. Purchases are low in meats, dairy products, canned goods, clothing and pharmaceuticals. South Africa is primarily buying insurance against economic sanctions and military threats, rather than consumer goods used by the entire population. Any rationale for opposing direct loans to such parastatal corporations as the Electricity Supply Commission (ESCOM) and the Iron and Steel Corporation (ISCOR) should also include the purchases of equipment for these organizations;

(3) that private sector loans are as equally central to the maintenance of apartheid as are public sector loans. South Africa is a centrally planned economy with its main foreign exchange earner, the mining industry, operating in the private sector. The privately and public owned mining enterprises help finance its infrastructural development projects. It would be paradoxical to deny international credit to corporations aiding this infrastructural development while condoning trade lending which provides South Africa with the same technology. With a highly centralized economy (51 per cent of the productive capacity is under direct Government control), the 49 per cent of the economy that is privately owned are not simply bystanders in South Africa's strategic development strategies;

As an exporter of goods to South Africa, the United States is South Africa's largest trading partner. In Africa, South Africa imports nearly 20 per cent of all United States goods to that continent. Trade with South Africa, particularly its importation of heavy equipment from the United States constitutes important financial and technical support for the economic well-being of the white minority Government.

An indication of the importance of export trade to South Africa is the fact that approximately 85 per cent of the \$1,067,645,556 ^{1/} worth of goods sold to that country in 1977 are classified as trade in machinery and manufactured goods, principally such items as aircraft, electrical and non-electrical machinery, machinery for special industries, power generating machinery, computer equipment, telecommunications equipment and construction and mining equipment. This equipment is essential to South Africa in its efforts to buttress its economy against (internal and external) pressures which challenge the structure of apartheid.

This trade serves three areas in realizing this goal:

(1) the equipment serves as an important source of technology. Thus, the large share of exports to South Africa are goods used in such areas as steel production, power generation and distribution, railway development, telecommunications equipment and construction equipment, enabling South Africa to gain sophistication in domestic production of essential goods;

(2) the pattern of South African imports indicates that some of the equipment is directly employed in South Africa's apparatus to control the black 87 per cent of the population. Particularly important in this area are imports of computers and telecommunication equipment;

(3) Some imports provide direct contributions to South Africa's military capabilities, both within South Africa and in attacks on neighbouring countries. This equipment includes aircraft, trucks, parachutes, radar and electronic detection apparatus, computers, and herbicides, including 24-D and 2,4, 5-T with spraying apparatus.

United States exports aiding "strategic investments"

With the success of independence movements in Angola and Mozambique, the development of similar movements in Zimbabwe (Rhodesia), coupled with increasing rebellions within South Africa itself, the South African Government's feeling of insecurity and vulnerability has grown. The international demands for change in South Africa's domestic policies have produced continued lobbying by a number of countries and organizations for total economic sanctions. All these factors have combined to increase the Government's insecurity. As a result, in the period 1974 to the present, the white minority has engaged in a concerted attempt at what William Raiford, researcher for Senator Clark's subcommittee on African affairs, describes as a programme of "strategic investment." ^{2/} This strategy involved the strengthening and diversification of the country's industrial infrastructures enabling it to minimize the effects of partial or total economic sanctions.

^{1/} United States Department of Commerce, United States Exports World Area by Commodity Groupings, FT 455/Annual 1977, United States Government Printing Office, pages 721-729. This figure includes \$1,050,500,360 worth of goods unloaded in South African ports and \$17,145,196 of goods shipped directly to Namibia.

^{2/} Subcommittee on Africa, Committee on Foreign Relations, United States Corporate Interests in Africa, United States Government Printing Office, January 1978.

The Raiford report quotes a Standard Bank Investment Corporation Review (November 1976) which describes this activity as follows:

"In the manufacturing field semi-public sector projects were intended primarily to strengthen South Africa's strategic position by concentrating on oil technology, steel production, aluminum and uranium reserves, petrol refining and developing electricity, gas and water utilities."

South Africa's purchases from the United States are predominantly in manufacturing and power generating equipment. Purchases were particularly heavy in electrical generating equipment, electrical distribution equipment and related parts. In 1977 South Africa purchased \$57,063,943 ^{3/} worth of such equipment. The total purchases in the first 11 months of 1978, \$38,011,805, indicate that the trend continues. Perhaps the best view of the importance of American technology in this area can be seen from the total of \$300,379,621 worth of power generating goods obtained during this "strategic investment" period, January 1974 to November 1978. Key imports in this area included turbines, generators, nuclear reactor parts, and electrical distribution equipment. The heavy purchases of parts, approximately 40 per cent of the 1977 total, indicates the continued reliance on United States supplied products.

Other strategic imports include purchases of railway, harbour and marine equipment. The United States sold South Africa \$30,346,259 worth of locomotive equipment in 1977 alone, probably to the Government-owned South African Railways and Harbours Corporation. By November 1978, South Africa imported an additional \$31,036,485 worth of this type of equipment, again with the pattern being purchases of heavier equipment followed by continued purchases of parts. The total purchases for the January 1974 to November 1978 period were \$185,264,388.

Steel production is concentrated in the Iron and Steel Corporation (ISCOR) which in recent years has embarked upon important development projects for domestic industrial and military needs, and to develop a steel exporting capability. The South African Standard Bank Review of March 1979 in an article entitled "The steel industry, major foreign exchange earners," notes:

"The primary steel industry is a major supplier, both directly and indirectly, to a wide range of capital and consumer goods related to manufacturing industries as well as to the civil engineering, construction and mining sectors. As a result of major expansions to the industry's capacity over the last few years, South Africa has become largely self-sufficient in steel production. In fact, over the last three years the industry has become a substantial net exporter of primary products and has made a valuable contribution to the country's foreign exchange earnings."

^{3/} Department of Commerce, United States Exports Schedule B Commodity Groupings Schedule B Commodity by Country, FT 410 United States Government Printing Office. All figures used in the remainder of this report are compilations from this series. Figures for each commodity grouping were compiled by year and this added together to give January 1974 to November 1978 totals.

Iron and steel related imports, in addition to the employment of power generating equipment previously described, includes metal working equipment as well. In the first 11 months of 1978, South Africa imported \$15,714,453 worth of such products, including foundry machines, rolling mill machiner, and arc welding machinery.

South Africa's mining industry is well known for its central role in the financial health of the economy as well as the inhumane conditions for black miners. South Africa is able to increase the value of many of its mineral exports by paying low wages and spending little on miners safety. One industry, SASOL, the oil from coal project, would be uneconomical if it weren't for the depressed wage structure in the coal industry. These low wages which result in a reduction in production cost coupled with high world prices and demand for key South African minerals all help to realize vital foreign exchange earnings on mineral exports. Again, United States exporters supply an important part of the necessary machinery contributing to the health of the mining industry. Of the \$87,825,040 worth of mining and construction equipment which the Department of Commerce list as one category, at least \$37,989,728 in 1977 was clearly mining related equipment. The total figures for mining and construction equipment exported to South Africa in the January 1974 to November 1978 period was \$351,679,092.

United States exports aiding the monitoring and control of the black population

Exports which are important in both industrial development as well as controlling the population include computers. In 1977 South Africa imported \$41,139,793 worth of United States made computers and related equipment, including \$17,267,053 of new computer systems described as being for industrial processes. That country's purchase represented 81 per cent of all computers sold by the United States in Africa that year. In one month South Africa purchased more computers and parts than the second largest purchaser, Nigeria, imported all year.

The uses of these computers were the subject of a study by Richard Leonard, Computers in South Africa, A Survey of United States Companies. He pointed out that even recognizing United Nations and United States prohibitions on sales to the South African military, and monitoring of sales to atomic energy agencies, sales to the Government-owned Electrical Supply Commission and Iron and Steel Corporation are not prohibited under United States Government policy. Equally significant is the great possibility that computers sold to private industries could either be resold to a defense or police agency or, more easily, time-sharing could be arranged with such organization.

The head of the computer division of a major South African private corporation, the Anglo-American Corporation, in reference to sharing computer time with restricted South African agencies, stated that: ^{4/}

"There is no way the United States authorities will be able to prevent this capacity from being shared by the defense and police departments."

^{4/} Richard Leonard, Computers in South Africa: a study of United States Companies, The Africa Fund, November 1978, page 9.

In relation to trade in parts, Leonard points out that IBM computers which have been listed as being used by the South African Department of Defense 5/

"are commercial models similar to ones being used by other Government agencies and corporate customers. It could therefore be difficult for the United States Government to monitor spare parts that might go to the restricted agencies, as opposed to those going to other customers."

Total computer purchases in the first 11 months of 1978 surpassed 1977 sales with \$45,340,864 worth of computers, accessories and parts. Total computer purchases in the period January 1974 to November 1978 were \$180,543,505.

United States exports which aid South African military capabilities

Besides employment of computers for military purposes, aircraft, engines, and parts are a major area of sales from United States exporters which aid South African defense capabilities. While sales of aircraft to South African military or police organizations are prohibited under the United Nations military embargo, the sale of "civilian" aircraft to private South African purchasers continues.

In 1977 South Africa purchased 100 aircraft and parts from United States exporters worth \$99,586,695. The figures for total aircraft and parts sales in the first 11 months of 1978, \$40,751,921, indicates that while total sales were down, South Africa bought nearly as many aircraft (97) and still purchased large amounts of parts and engines. Again

viewing total sales during the period of strategic investments, January 1974 to November 1978, South Africa purchased a staggering \$579,789,875 worth of aircraft and parts. One would ask why aircraft are the largest single category of South African imports from the United States?

While much has been written on the uses of these "civilian" aircraft, and while United States exporters continue to deny their adaptability to military uses, the South African military journal, Paratus, (1974) offers the best case for their broad applicability:

"Without these aircraft, the helicopter, Cessna and Dakota, problems of supplies and communication would be insurmountable. It is through them that the continued presence of our troops is guaranteed and life on the border made a little easier. Cessnas can be used to control ground fire on to specific targets and to report subsequent enemy movement."

Paratus goes on to outline the particular usefulness of Cessnas:

"Reconnaissance: Low-level visual reconnaissance with a pilot observer is done with the Cessna because of its maneuverability and low fuel consumption. These small aircraft keep the one thousand mile border under constant surveillance".

In addition to "non-military" aircraft, other important civilian imports aiding South Africa's military were the 1977 purchases of \$59,460,490 worth of automotive equipment, much of which was "off-highway" trucks with obvious utility to the armed forces. Moreover, nearly all vehicles made in South Africa contain foreign parts. Thus South Africa must import both vehicles such as special purpose trucks which it does not produce, as well as products for those vehicles which are domestically produced. ^{6/} The figures quoted above do not include the significant importation of capital equipment from United States parent firms to their South African subsidiaries which are used in the production of vehicles in that country. All of these categories of automotive equipment (vehicles, parts and manufacturing machinery) provide South African military with a range of vehicle types to suit its defense needs.

South Africa's imports of pesticide and spraying appliances for pesticidal uses are an area of particular significance to a country virtually at war with its northern neighbours. The 1000 mile border, much of which offers terrain suitable to guerilla infiltration and operation, particularly from Angola into Namibia, all point to the possibility of the application of herbicides to remove brush and forest covers. In an open letter from Congressman Charles Rangel, dated 29 June 1973, he notes,

"As we have learned from extensive use of the now-infamous "Agent Orange" in Indochina, of which 2, 4, 5-T herbicide is the main ingredient, this poisonous chemical is environmentally catastrophic. In fact, it has all but been banned for use in the United States. Most shocking, and not yet widely known, is the use of herbicides by the régimes of Portugal and South Africa in the perpetuation of warfare against their African colonies. Much of the 2, 4, 5-T herbicide that is being used in this horrid operation comes from American Government and business."

The Department of Commerce, which does not itemize each herbicide, lists herbicidal preparation sold to South Africa as totalling \$6,838,658 in 1977. Sales of these products, which the Department of Commerce classifies as a "civilian commodity", has increased steadily from the \$1,200,516 worth sold to South Africa in 1969. In addition the United States exported \$2,152,707 worth of spraying apparatus in 1977.

Finally, other imports which quite probably are used by the military are the 1977 purchases of \$778,872 worth of "electronic search and detection apparatus including radar", and the 1978 purchases of \$515,511 of radar apparatus and parts. Moreover, South Africa's purchases of 63,914 parachutes worth \$171,935 also have obvious military uses.

By comparison, South African purchases of food, pharmaceuticals and clothing are all relatively low. In 1977, the United States exported \$7,574,101 worth of medicinal and pharmaceutical products, \$1,887,297 worth of clothing and \$2,560,137 worth of fruits and vegetables. In fact, the total food purchases of \$41,578,897 in 1977 would be very low had South Africa not imported \$30 million worth of rice in that year. Clearly, South Africa is mainly an importer of heavy manufacturing goods related to infrastructural development. Recognizing that the purpose of that development is the further entrenchment of white minority rule and the establishment of "fortress South Africa", the nature of United States exports to that country directly feeds this goal.

^{6/} Karen Rothmyer, United States Motor Industry in South Africa, the Africa Fund January 1979, page 1.

TABLE I

Yearly trade totals in selected commodities

Total 1977 United States exports to South Africa \$1,050,500,360
 Total 1977 United States exports to Namibia 17,145,196

1977 TOTAL \$1,067,645,556

Aircraft, aircraft engines, and parts

Computers, parts and accessories

1974 \$68,203,085
 1975 99,384,892
 1976 271,863,282
 1977 99,586,695
 Jan-Nov 1978 40,751,921

1974 \$ 27,888,511
 1975 34,287,589
 1976 31,886,748
 1977 41,139,793
 Jan-Nov 1978 45,340,864

TOTAL \$579,789,875
 1974-November 1978

TOTAL 180,543,505
 1974-November 1978

Power generating equipment, including electrical and non-electrical, distributing equipment and parts

Construction and mining equipment and parts

1974 \$43,979,189
 1975 95,896,984
 1976 65,427,700
 1977 57,063,943
 Jan-Nov 1978 38,011,805

1974 \$ 47,343,287
 1975 83,602,205
 1976 69,416,956
 1977 87,825,040
 Jan-Nov 1978 63,491,604

TOTAL \$300,379,621
 1974-November 1978

TOTAL \$ 341,679,092
 1974-November 1978

Railway equipment and parts

Automotive equipment and parts

1974 \$33,001,009
 1975 43,383,128
 1976 47,497,507
 1977 30,346,259
 Jan-Nov 1978 31,036,485

1977 \$59,460,490

TOTAL \$185,264,388
 1974-November 1978

Telecommunications equipment

1977 \$14,186,166

Metal working equipment, including rolling mills machinery, arc welding machinery and foundry machinery with parts

January-November 1978 \$15,714,453

TABLE II

Selected commodity categories: itemized purchases by year

Aircraft, aircraft engines and parts, 1977

<u>Quantity</u>	<u>United States dollar Value</u>
Aircraft, personal and utility type, single engine, non-military, new 60	\$2,584,827
Aircraft, personal and utility, multiple engines, under 3000 lbs. empty airframe weight, non-military, new 9	1,355,286
Aircraft, personal and utility, multiple engines, 3000 lbs. and over empty airframe weight, non-military, new 19	8,638,333
Aircraft, rotary wing, under 2000 lbs. empty airframe weight, non-military, new 8	1,418,297
Aircraft, cargo transports, 33,000 lbs. and over empty airframe weight, non- military, new 2	15,027,230
Aircraft, passenger transport, 33,000 lbs. and over empty airframe weight, non-military, new 1	33,228,974
Internal combustion engines, new, non-military, aircraft under 500 horse power 24	238,604
Internal combustion engines, used, non-military, aircraft 3	72,283
Parts and accessories for internal combustion engines, aircraft 19,124,622	
Jet and gas turbines for aircraft, non-military, new 3	602,240
Jet and gas turbines for aircraft, non-military, used 5	3,008,576
Propellers and parts for aircraft and airships 42,283	1,492,772

<u>Quantity</u>		<u>United States dollar value</u>
Aircraft, used, rebuilt, modified, or converted, non-military		
1		\$ 350,000
Landing gear and parts for aircraft, airships and balloons		
23,769		551,417
Parts and accessories for aircraft, airships and balloons		
593,597		10,241,800
Aircraft instruments, amplifying, computing, controlling, indicating and transmitting, electric or electronic		
1,631		1,107,047
Aircraft flight instruments, including automatic pilots		
		100,014
Aircraft, turbines, parts and accessories		
		444,373

Total aircraft sales	1977	\$99,586,695
Total aircraft	100	

Computers, parts and accessories 1977

Digital electronic computers, main frame and central memory, including industrial process computers		17,267,053
Computer related machines for preparing tape or punched cards		
126		333,726
Statistical machines used in conjunction with punched or tape		
15		78,775
Input devices for electronic computers		
56,760		1,074,718
Output devices for electronic computers and parts		
135,644		1,903,548

Combination input-output devices for electronic computers and parts	882,119	8,517,111
Storage devices, random access, for electronic computers and parts	151,028	3,467,228
Storage devices (except random access) for electronic computers and parts	10,555	1,124,125
Parts and accessories for basic electronic computers	635,740	7,033,945
Parts and accessories for computer-related machines and statistical machines used in conjunction with punches cards and tape	12,919	339,564

<u>Total computers and parts 1977</u>		41,139,793

Herbicides, herbicide ingredients unmixed, and apparatus for spraying 1977

	<u>Quantity (pounds)</u>	<u>United States dollar value</u>
Agricultural chemical preparations, including plant growth regulators	69,975	401,475
Herbicidal preparations	2,209,714	3,617,189
Namibia	13,230	207,331
Other pesticidal preparations, except household and industrial	901,413	1,069,632
Organo-phosphate containing pesticidal preparation	810,097	1,409,000
Chlorinated hydrocarbon pest preparations	32,576	134,031

<u>Number of items</u>	<u>United States dollar value</u>
Sprayers and dusters, agricultural and pesticidal, power operated	
6,981	1,353,686
Sprayers and dusters, agricultural and pesticidal, hand operated	
	91,621
Parts for agricultural and pesticidal sprayers and dusters	
	707,400
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Total pesticides 1977	6,838,658
Total pesticides and spraying apparatus	8,991,365