

THE SOUTH AFRICAN ECONOMY UNDER SIEGE

"The South African Council of Churches after consultation with community organizations and unions, joins the majority of the people of South Africa in calling for immediate comprehensive and mandatory sanctions that are aimed at sapping the energy of the apartheid state. We believe that the imposition of such sanctions is the only way to effect change in South Africa with minimum violence."

--Rev. Frank Chikane, General Secretary, SACC, June 15, 1988

1988: The Year Sanctions Began to Bite

As U.S. and international sanctions have begun to exert increasing pressures on South Africa, the apartheid economy is experiencing serious constraints. Economic isolation has also undermined South Africa's ability to finance its occupation of Namibia and attacks against the frontline states. In response Pretoria is waging an escalating campaign against additional sanctions abroad.

Since 1985, the year the U.S. banks refused to renew their outstanding short-term loans to South Africa, the South African economy has experienced a net capital drain of \$10 billion. This economic distress has resulted from a number of factors:

1. Contributing FactorsA. Sanctions

The Anti-Apartheid Act of 1986, barring new investments in South African entities, has reduced the amount of foreign capital which would otherwise have been invested there.

Trade sanctions in the U.S. and elsewhere have curtailed South Africa's export earnings. During the first 9 months of 1987 alone U.S. imports from South Africa declined by more than \$417 million, out of a total \$469 million reduction in South African exports world-wide.

South Africa's 22 non-U.S. trading partners did not make up for cut backs of U.S. imports, except in the area of agricultural goods.

B. Disinvestment

In response to public pressure and legislation, more than half the U.S. companies with investments in South Africa in 1984 have sold their assets there. This has resulted in a reduced corporate tax base and the depletion of South African capital, used to purchase many of the operations divested by U.S. companies.

C. Cut-Off of Short Term Loans

Since U.S. banks called in their short-term loans in 1985, resulting in a South African government moratorium and rescheduling of debt repayments, the total of new international lends to South Africa has declined.

D. Declining Productivity of South African Manufacturing Industry

In the face of declining exports, disinvestment and reduced credit availability, and despite a mild increase in private investment spending this year, the productivity of South Africa's manufacturing sector has declined. Given South Africa's need for foreign capital, this trend has become more problematic following the recent drop in the price of gold, on which can no longer safely depend to boost its export earnings.

E. International Aggression

Pretoria has exacerbated its economic problems by spending millions on attacks on the frontline states (including the war against Angola), and pumping an estimated \$700 million a year into the occupation of Namibia. Such military adventures have begun to place an unbearable burden on South Africa's declining economy.

2. Pretoria's Response: Since 1986, South Africa has used two major mechanisms to raise the capital it needs to sustain its besieged economy and repay its debt:

A. Selling Gold Stocks

South Africa has sold a substantial portion of its gold stocks to build up foreign currency holdings to repay its international debt. During the 12 month period ending in October, 1987, South Africa's gold and foreign exchange reserves fell 41%. By the end of 1988 these reserves were only enough to cover 6 weeks of imports. At that time the South African Reserve Bank announced that over 15 months the gold component of foreign reserves had plummeted by \$258 million.

B. Attempting to Sustain a Trade Surplus

As sanctions have reduced export earnings, South Africa has reduce its dependency on imports and improve its balance of payments by exploring mechanisms for import substitution and imposing a 60% import surcharge in August, 1988. Pretoria's planners determined this was necessary to keep the country's economic growth rate below 3%--the point at which rising consumer demand will begin to pull in imports.

3. Resulting Problems

The South African economy, already suffering from the acute inefficiencies caused by apartheid, compounded by the capital drain and additional costs of growing international isolation, has experienced additional difficulties as a result of its attempted solutions.

A. Economic Stagnation

South Africa's economic growth rate measured 2.5% during 1987, and between 2.7 and 3% in 1988. This rate is far below the estimated 5 - 6% needed to keep pace with the growth in the country's predominantly Black work force. The Congress of South African Trade Unions estimates that Black unemployment exceeds 50%.

This problem is accentuated by the widening wage gap between Black and white workers, which increased from R600 in 1979 to R1,100 in 1985. In 1988 the average wage gap in eight major sectors of the economy stood at R1,700.

Even this year's "mild recovery" has posed additional problems by creating a limited "consumer-led boom" which, while failing to create jobs or improve the country's productive capacity, did swell the money supply and increase inflation.

B. Declining Value of the Rand

As South Africa's balance of trade has slipped, the value of the Rand dropped 27% during the first 9 months of 1988 alone. This in turn has exacerbated the shortage of foreign capital, since more Rand are now required to cover imports and service the foreign debt.

C. Inflation

The deteriorating South African productivity and balance of trade, in addition to the declining exchange rate, have fueled inflation which, currently pegged at approximately 13.5%, is projected to rise.

Implications for Action

As apartheid South Africa confronts the possibilities of tightening sanctions and a continuing decline in international loans, it faces the spectre of an economy under siege. This presents apartheid's international opponents with the chance to exercise critical economic leverage. Pretoria's escalating repression underlines the urgency with which we need to take advantage of this historical opportunity, if sanctions and disinvestment are to achieve their maximum impact while peaceful change is still possible.

Effective pressures now require an intensified campaign for corporations to sever all South Africa ties, for banks to demand maximum repayment of Pretoria's outstanding loans, and for comprehensive, mandatory sanctions against South Africa.