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AMERICAN BUSINESS AND FINANCIAL INVOLVEMENT IN
SOUTH AFRICA *

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It is none other than Mark Twain who set the precedent for the following comments on apartheid and American capital. In a few un-academic and cutting observations, he sliced the armor of both Afrikanerism and economic empire-building. He had little taste for either. In his day no more hostile confrontation was imaginable than the mutually antagonistic postures of Kruger and Rhodes, of trekker and uitlander, of Boer church and English counting-house. Less than a century later apartheid and foreign investment have achieved, not without discord and tension, an accommodation of realities on the shared ground of white supremacy and profits. In the evolution of this practical arrangement American financial involvement has been a growing force of no minor importance.

This paper contains three parts, a section setting forth relevant assumptions, another disclosing some factual findings, and the last defining the pertinent issues. At the outset it must be conceded that no exhaustive treatment has been attempted for all the vital questions the topic in its full scope encompasses.

Assumptions

(a) about apartheid

1. The agonizing concerns of the moment, i.e., the selected targets calling for immediate remedial action, are first of all, the apartheid policy of the Nationalist Government of South Africa as distinguished from the totality of racism in Southern Africa and, secondly, the garrison state apparatus and practices brought into existence to

*Note: In this version of the paper, footnotes have been omitted except where there is a direct quotation. For content I have drawn mainly on the Survey of Current Business (United States Department of Commerce), Federal Reserve Bulletin (Federal Reserve Board), publications of the Government of South Africa, United Nations documents, Africa Today (March 1964, American Committee on Africa) and Houghton, D. Hobart, The South African Economy (Cape Town: Oxford University Press, 1964). I am grateful to those officials of the United States Government, corporations, and banks that have responded to my requests for information. Finally, I wish to acknowledge the assistance rendered by the following Syracuse University students: Bruce Shaw, Kenneth Baer, Susan McKnight, and Roger Knapp. The author is Associate Professor of Political Science, Maxwell Graduate School, Syracuse University, Syracuse, New York.

enforce compliance with the imperatives of apartheid as distinguished from the Republic of South Africa as a country of many communities of differing peoples and cultures, rightfully an equal member of the community of nations.

2. Apartheid, which the South African Government insists is purely an internal matter, is in reality just that, but within the domestic jurisdiction of the community of nations, not that of South Africa alone. The United Nations has settled this issue by resolutions and infinitem. In any case it must be so principally because the victims, the vast majority of the population of the Republic, have no practical course open to them for relief from the ordeal of indignity and deprivation by discrimination except via multi-national initiatives. It follows that any party that deals with the proponents or instruments of apartheid, or supports them, exposes itself to the jurisdiction, legal and moral, of the international community.

3. Apartheid is essentially indigenous in origins, content, and form. It is a product of South Africa fashioned out of local values and attitudes. Whatever affinities there may be between it and racism in the United States, apartheid is no American export to South Africa, nor have American interests there connived deliberately in its enactment into law or enforcement of such laws. In practice it entails several unanticipated difficulties including embarrassment elsewhere, for American enterprises that normally prefer more of a laissez-faire or free economy environment for their operations.

4. Although apartheid appears firmly entrenched with its protagonist, the Nationalist Party, secure in its power, South Africa is nonetheless currently immersed in a configuration of forces which are neither static nor permanent and are not so impermeable as to be totally unresponsive to pressures making for change in the direction, intensity, and feasibility of apartheid. In short, appropriate efforts that are intended to induce change in South Africa have a fair chance for success, fortunately, at less than a prohibitive price for all the parties with vital interests at stake.

(b) about international finance

1. Economic gain underlies the whole range of international financial and business transactions that corporations and nationals of the United States conduct with South Africa in ways that fit, as well as shape the familiar patterns of international finance. Interest payments, dividends, and other returns attract American capital to South Africa, as such rewards guide investment and commerce elsewhere in the world. Comparatively poor earnings in South Africa will in all likelihood cause American interests to review their position there, as will difficulties encountered in other parts of Africa that can be traced to American involvement in South Africa.

2. International finance in both public and private guises constitutes a significant dimension of international relations, affecting the exposure of nations to each other, influencing the flow of people, goods, and ideas across, as well as within national frontiers, and invoking as it does, various governmental, inter-governmental and non-

governmental systems of control and management. It is complex and tends to be secretive, which adds to its image as being sinister, ordinarily and exaggeration. Despite protestation to the contrary, it is political, if not in its structure, then in its practices and consequences. At one time or other all governments utilize the overseas economic presence of their own agencies and nationals in the conduct of foreign relations.

Findings

It is the intention in this section to (a) provide a profile of American business and financial involvement in South Africa and (b) review and assess the capability of American interests to oppose or support concerted endeavors to weaken fatally and extirpate apartheid. This dual approach therefore serves logically to couple the nature of the beast with its endowment to act or perform.

(a) about the profile of American business and financial involvement

1. Last year (1964) the dollar value of all financial transactions that directly and indirectly linked the United States to South Africa amounted to more than seven hundred million dollars, according to some sources, and perhaps as much as one billion dollars by my own estimate. Needless to say these figures exclude the bulk of payments covering imports and exports between the two countries. The transactions that aggregate this total are spread over several types of involvement as follows: loans and lines of credit extended to South Africa by the United States Government and also international organizations in which American representatives play central roles in decision-making; direct investment by American companies through subsidiaries and other enterprises in South Africa that they control; direct investment by American sources through other third parties they dominate and corporations in which they hold minority status; lines of credit opened in the United States and South Africa for the South African Government and private interests by American banks and financial houses; and shares of stock and shares of stock and other equities of companies in South Africa purchased and held by American companies and nationals. Such diversity of involvement, combined with an institutional aversion to publicity or visibility by business and finance, renders it virtually impossible to produce a comprehensive, firm, and accurate aggregate figure specifically measuring overall American economic involvement in South Africa.

2. During the past twenty years the growth of American investment and financial transactions in this part of the African continent has been noteworthy, but nonetheless constitutes less than one per cent of the dollar value of all international financial transactions of the United States. Certainly to the American economy and American interests every one per cent counts. In South Africa this one per cent or less falls between ten and fifteen per cent of all foreign liabilities incurred by South Africa and gives the United States a massive position second only to Great Britain in the economy of the Republic. Inasmuch as foreign investment constitutes a substantial portion of all investment in South Africa, the United States, principally through its nationals,

owns a not insignificant part of South Africa Ownership of this extensive magnitude, is tantamount to penetration, which is to say that a United States presence has evolved in the South Africa economy steeped as it is in apartheid.

3. Decisions taken by the United States Government in the past twenty years have facilitated access of the Nationalist Government and South African enterprises to American capital and credit. In the first place, the Export-Import Bank of Washington, D.C., an agency of the United States Government, has approved short-term and medium-term guarantees and insurance for American manufacturers who export to South Africa. In September, 1959, the Bank authorized long-term project loans in favor of South African entities in the amount of twenty-four million and seventy thousand dollars. Secondly, the United States Government has permitted the World Bank (International Bank for Reconstruction and Development) to tap American sources of funds for loans to South Africa. Thirdly, neither the State Department nor Treasury Department has deterred American banks from supplying South Africa with "revolving credit" or other credit arrangements of considerable size directly and through international syndicates that might very well be discouraged officially. Only in the last few weeks the American contribution to the "revolving credit" has been increased. As a consequence of the decisions or omissions of the United States Government, the South African Government has been enabled to surmount formidable obstacles to the implementation of its plans for economic development, as well as to meet pressing current obligations. To what extent this sympathetic treatment of South Africa increased the capability of the Nationalist Government to proceed with the Bantustan phases of apartheid cannot be accurately ascertained, but the relevance is obvious. Some observers contend that in 1961 the United States through public and private channels, rescued the South African Government from a crisis of confidence that, as a possible consequence, might very likely have compelled that government to reconsider its stand on apartheid, or on at least the economic aspects of apartheid, which have never won consensus, not to say unanimity from the European leadership of the country.

4. Direct investment by American companies through subsidiaries and partially controlled enterprises in South Africa creates involvement in depth. At present it is estimated that the dollar value of direct American investment in South Africa has crossed the five hundred millions mark, including projected plant and equipment expenditures for 1965. The latest official statistics are for the year 1963, and the aggregate at the end of that year was four hundred fifteen million dollars, approximately three times that in 1950. By 1960 the amount was two hundred eighty six million dollars, representing growth of one hundred per cent, though 1960 was a year in which South Africa suffered a heavy net outflow of capital, a condition that appears to have set in about as early as 1955. Since 1960 the increase in direct American investment has been of a better than ten per cent magnitude, now approaching fifteen per cent annually.

5. With the drastic retreat for American direct investment in South Africa in 1960, this category is frozen at more or less one per cent of the total United States direct investment throughout the world. Commitments of private firms to projects in other continents overshadow

their activities in South Africa, though in the last two years they have accelerated the rate of expansion there too. Furthermore, for this type of American investment South Africa has yielded ground to other countries in Africa, especially Liberia and Libya. Ten years ago it could boast of having fifty per cent within its boundaries; today its share is thirty per cent. However, as American corporations diversify their manufacturing activities in South Africa, for example, they now produce automobile engines when before they merely assembled automobiles, new investment is likely to restore some of the lost ground to South Africa. As for any additional flow of capital at this time, President Johnson in his balance of payment message of February 2, 1965, asked for a voluntary moratorium.

6. Through modest increments of new capital and the reinvestment of a good proportion of earnings, American companies have attained positions of strength in the fields of mining and manufacturing in South Africa. One source places the amount in mining in the neighborhood of one hundred eighty two million dollars and another at sixty seven. When all the ramifications of South African and world mining are taken into account, the former rather than the latter is probably the closer figure. Copper, uranium, gold and chrome have drawn American capital to South Africa; across the board the American stake is still far behind the British that dates well into the last century. The key point is that the mining industry, which is second to none in its contribution to the local and international viability of the South African economy, is a color bar industry. Racial selection of employees long preceded apartheid in the mining industry; supervisory and skilled jobs are handed to "whites" while the Africans, recruited locally and in Basutoland and Mozambique, fill the jobs for the unskilled labor force. In this connection, American mining interests conform to the standard practices. Thus, if these interests take no outright stand in support of apartheid, they are supportive of it in pursuit of their own interests. It is to be noted that one of the major American corporations in South African mining enjoys elsewhere in Africa a special reputation for the pressure it once applied for the reduction of the color bar in Rhodesian mining industry.

7. It is in the field of manufacturing in South Africa that American capital has made a substantial name for itself, for its vigor and its association with apartheid. Well known American corporations have been opening subsidiaries in growing numbers, the total amount of investment being in excess of one hundred fifty eight million dollars, the latest official statistic for 1963. Today one hundred seventy five million is a reasonable but still conservative estimate. Automobiles, chemicals and pharmaceutical products, petroleum, and paper are high on the list of items that American companies turn out for the South African and central African markets. General Motors, Chrysler, and Ford (through Ford of Canada) are involved to the sum of sixty millions in plant and equipment, currently progressing from assembly lines to the manufacture of engines. Only the other day the new \$30,000,000 General Motors plant was opened. To the extent that investment of this kind reduces the dependence of South Africa on overseas sources of industrial production and advances it towards partial self-sufficiency, especially where local raw materials and finished products are utilized, the result is to

strengthen the economic foundations of the garrison state that imposes apartheid. The trend towards local production commenced long before South Africa was hardly more than an outpost of British imperialism for most Americans, but it is now converting that portion of American wealth located in South Africa into an indentifiable adjunct of its garrison state economy.

8. As for the lending activities of American banks, worthy of mention are the multi-million dollar credits that have been extended to and renewed for the Government of South Africa. In the consortium of several banks, two principal participants are major United States banks, which also offer a whole range of banking services through branches in South Africa. In the past few days the Government of South Africa has announced the merger between the Chase Manhattan Bank of New York and the Standard Bank of London, which is closely identified with British interests in South Africa. Obviously the American banks are concerned about securing and advancing their position in southern Africa and pursuing economic gains, which are legitimate aspirations. It is clear that in doing so, they are both supplementing the capital resources of the area and enhancing the reputation of the present order in South Africa with the business circles of the world.

9. In following the pattern of penetration that it has in South Africa, American direct investment has acquired more or less the characteristics of what might properly be termed "immersion" or "assimilation" investment. Unlike the purchase of shares on the stock exchange or ordinary bank loans, it reaches far into the South African economy with the striking consequence that American companies have gone a long way in assimilating to the social, legal, and political order, including apartheid. For example, they recruit local employees and assign jobs by color and organize employment of Africans according to the South African Bantu labor legislation. Paradoxically the foreigner becomes an insider, and rarely do the discharge of his responsibilities raise questions about interfering in the internal affairs of South Africa. Executives or staff, to illustrate the point, discuss plant operations, marketing problems, currency controls, labor policies, sources of supplies, and import restrictions with South African civil servants, bankers, or political leaders. Furthermore, they participate in policy-formulation of trade associations and chambers of industry, along with their South African counterparts. So deeply immersed are they in the local setting that they have become an arm of the South African system and, to the extent that the system functions according to the policy of apartheid, an arm of apartheid. It may be that in private managers of these American enterprises disapprove of racial separation by law or controlled employment for non-Europeans. However, the greater the stake that American investment accumulates in South Africa and more diffused it is throughout the economy, the stronger is the tendency among American corporations and banks to come to terms with apartheid and, willingly or not, to serve as its agent. To argue that foreign firms whether they want to or not, must adjust to local circumstances as an inescapable condition for pursuing their interests simply means that under a degree of duress American firms are implementing apartheid for the Nationalist Government. In short, by its role in South Africa, American direct investment reinforces apartheid

as it reaps the benefits, as well as the privileges apartheid generates.

10. No other country in Africa has the variety of American manufacturing that is found in South Africa. As the southern portion of the continent is rich in resources, there is a natural base for industry, at least as natural as Africa affords. However, it is the rare case where an American company or bank has its overseas interests exclusively in South Africa and no involvement of any type elsewhere in Africa or Asia. Practically all have capital, know-how, franchises or licenses, or markets that link them with other African nations. For example, American Metal Climax is closely associated with the Rhodesian Selection Trust in Central Africa. General Motors owns European automobile manufacturing companies that sell on the East Africa market. Virtually all the American pharmaceutical houses have outlets in East and West Africa. It follows that in those nations that perceive apartheid as a cancer, American interests are inviting trouble for themselves.

11. In some quarters it is commonplace to place American corporations and banks doing business in South Africa in the camp of apartheid, as if the matter were just as simple as that. The presumption is made that, inasmuch as they are willing to deal with the Verwoerd Government and operate under the laws of the Republic, they are enabling apartheid to survive and spread. It is forcefully suggested that if they really found the policies of the Nationalist Government repugnant no other commitments or opportunities would conceivably prevail to keep them on the South African scene, not even substantial returns on otherwise sound investments.

Actually most American firms in South Africa follow the ways of homo economicus, pursuing profits, eschewing politics. To their executives apartheid is no more than an aspect of an environment that by its own qualities attracts capital from Japan and West Germany, in addition to Great Britain and the United States. There is virtually no evidence to the effect that American manufacturers find apartheid economically meritorious or so advantageous as to warrant open or direct encouragement for its survival and perpetuation. More than likely, some are as disturbed as the executives of British corporations who view apartheid as unjustified governmental interference with the natural forces of society and the economy. Like their British counter-parts, while sensitive to the dangerous consequences of deliberate efforts at "racial separation" in time of irrepressible African nationalism, they tend to make their peace with the government of the day, and for a price extend it a helping hand from time to time. This posture they explain as the only workable course open to them short of suicide.

12. At present American business and finance show no inclination to join in sanctions against the existing South African Government. In their view the effective solution lies in economic realism in general and specifically in the economic development of the region. More capital investment in South Africa increases the demand for labor, especially skilled labor, and in this is a force that can overwhelm economic apartheid, as connoted in the following quotation:

...it is clear that if the target (economic plan-JRF) is to be achieved, either there will have to be a sharp increase in immigration beyond the estimated figure or the Government will need to allow Non-Whites to do increasingly more advanced work.*

Sanctions are usually identified with planned efforts to impoverish the enemy. American capital sees the answer to apartheid in the appeal of prosperity.

13. If the world position of the United States dictates that there be an American "presence" in every principal region of the globe then its image should be creative and inspiring. In South Africa American capital tends to impress its insignia on the American "presence" which has a distinctly narrow base. Hence, the South African has little choice but to identify the United States with the dollar rather than with other indicators of the American way of life, such as the civil rights movement, artistic accomplishments, social legislation, and other representative of non-economic values. The existence of the American Embassy and several consulates, flood of visitors, including scholars, or circulation of selected American publications cannot adequately redress the imbalance and, therefore, fail to bring out sharply the contrast between the libertarian principles which distinguish the United States among nations and the inhibitive policies of apartheid which endangers the reputation of South Africa in the international community.

(b) about the capability of American business and finance to oppose or support an organized international campaign against apartheid.

1. As for their capability to underwrite the status quo in South Africa, the truth of the matter is, to put it mildly, that it is considerable. At present they are engaging in activities that obviously are in non-compliance with the heavy moral condemnation of apartheid by the United Nations. Moreover, they seem unconcerned about, though not unaware of, the possibility of reprisals against their properties elsewhere in Africa. Even in face of threats to their newly gained position on the African continent and loss of most-favored-nation concessions by various African governments, they persist in expanding their involvement in South Africa, as well as using the Republic as a base for doing business elsewhere in Africa. There is little indication how far counter-measures or deterrents will have to be pushed before American investors begin to treat their commitments in South Africa as liabilities in general. Moreover, one cannot rule out decisions to back the South African Government fully, whatever its complexion and policy, in order to "avoid another Congo" or to forestall a "Communist take-over."

2. Aside from their ability to bolster the South African economy in times of crisis, where American business and finance can exercise crucial influence is in Washington and with both the legislative and executive branches of the United States Government. They carry considerable weight in the American political system, and they can put it to work to nullify or neutralize organizational and grass-

*Quote from the Financial Times, December 18, 1964, in Africa Digest, February 1965, Vol. Xii, No. 4.

root efforts that seek official endorsement for the anti-apartheid campaign. A word of encouragement for the campaign from the President and the Vice-President or Senator Fulbright will advance the cause many times over, but the chance of such support when rendered controversial by American interests determined to prevent this type of official intervention in the "domestic affairs" of South Africa tends to be small. If sanctions, however reasonable and mild, will tend to harm or embarrass these interests, their lobbyists are well equipped to press their case with vigor and vehemence on the Hill and at Foggy Bottom.

3. If American companies and banks are capable of frustrating or emasculating the anti apartheid movement, they are equally capable of championing and advancing it. There are some visible clues as to the deployment of their power when provoked. In 1960, with "the progressive weakening of world confidence in Southern Africa" in general and "a loss of confidence on the part of private investors" in particular, they demonstrated their ability to withdraw and withhold capital from South Africa. One estimate puts the magnitude of the withdrawal in the neighborhood of eighty million pounds sterling. How much capital that may have reached South Africa except for the "loss of confidence" but otherwise remained in Great Britain and the United States or was invested elsewhere overseas cannot be known. The implication of this crisis of confidence provided Mr. Harry F. Oppenheimer, Chairman of the Anglo-American Corporation of South Africa, with a key and telling theme for his annual report:

...The falling-off and, more recently, the reversal of this inflow are already seriously retarding new development and must, if not arrested, threaten the living standards of the people.*

The manner in which South Africa weathered the 1960-1 crisis is noteworthy for its American angle, but no more so than the remarkable fact that foreign investors, by their decisions, helped produce the crisis "more severe than any experienced since 1932." Their decisions on how to handle their capital sorely needed by South Africa compelled the Nationalist Government to resort to measures that generated as much antagonism and dissension as it did admiration. Though it is part of the Afrikaner tradition to wince at the mention of foreign capital, the events in the first years of the 1960's reminded them dramatically that they are still dependent upon investment by foreigners, as well as international trade, for their high standard of living. These events also dramatized for foreign investors just how far they had penetrated the South Africa economy, as well as just how much influence they could wield with determination and even inadvertantly. It is obvious that influence of this calibre is the critical asset sought for the effective application of economic sanctions against the Nationalist Government.

*Anglo-American Corporation of South Africa, Ltd., Chairman's Statement, 1961, p. 1.

4. If international finance means anything, it means leverage. It is taken for granted that for the defense of its own interests such leverage will be activated. Examples are numerous and there are many more such actions that are still hidden in dusty files or lost altogether to recorded history. It is true that the top level of apartheidists are not pashas or caudillos and their positions today seem extraordinarily secure, but still the Nationalist leadership shows, if not division in its rank, at least differences and exploitable differences that stem from varying degrees of sophistication, local loyalties, and political ambition. Ordinarily its composition is unlikely to be influenced by such considerations as fiscal policy or financial respectability. Nevertheless, the time almost always comes in the life of a government when it must sacrifice this or that policy in order to protect or refurbish its reputation in business and financial circles. In a tense situation as may ensue from internal and international pressures, the leverage exercised by well entrenched foreign interests at the appropriate moment, may very well upset the balance of political forces and pave the way for another prime minister or cabinet that is less obstinately committed to apartheid or admits to the necessity for the good of South Africa, of coming to terms with the non-Europeans. For that matter, it is in this very direction that the interests of American investors in the manufacturing sector lie. Surely they stand to profit from the addition of non-European customers to the market in South Africa and elsewhere on the continent.

5. In addition, American business and banking circles can assist the anti-apartheid campaign in other ways. A gesture favorable to the campaign is bound to have a valuable demonstration effect both in the United States and the world at large, to say nothing of exciting repercussions in South Africa. Certain American corporations or banks or investment houses can, through the diverse and far-reaching means at their disposal, discourage or divert subversive thrusts that are incompatible with the efforts to mount a decisive campaign of sanctions. Their contacts with Japan, West Germany, and Italy can line up additional support for the campaign, magnify their impact, and shorten their duration.

From what has already been suggested it also follows that an imaginative, anti-apartheid campaign may very well win Presidential and Congressional endorsement if the broad spectrum of American interests in South Africa urge the Administration to take a firm stand on this issue. A policy statement from the White House to the effect that apartheid is not only abhorrent, but stands contrary to the interests of the international communities to which the United States belongs and therefore, to its interests may make a deep impression on the entire world. Its effect will be all the more impressive if it is accompanied by assurances to American companies in South Africa that their government supports them in their opposition to apartheid. It may very well be necessary to guarantee these companies compensation for the losses incurred as a consequence of any aid they render to the movement. Such protection will show the world that the United States means business when it comes to the moment of truth for apartheid.

Issues

In a determined and vigorous campaign aimed strategically, not to defeat or humiliate the Republic of South Africa, but to weaken fatally the garrison state that fosters, sustains, and executes the pernicious policy of apartheid, every participant, whether a voluntary one or by force of circumstance, must be assessed as a potential or actual ally or enemy or as an aligned or non-aligned neutral. According to this operational rule, each contribution, however central, however superficial counts just so long as it hastens the demise of apartheid. At the same time, one must be simultaneously alert to likely efforts that may retard or negate effective and penetrating thrusts at this target. It is by this pragmatic standard rather than by any seductive or rousing dogma that American business and financial circles with serious interests in South Africa can be fairly judged for its roles, in the anti-apartheid campaign.

After the preceding analysis there comes the final task of this presentation, namely, to define the issues that are central to the pressing objectives of this conference:

(a) whether American financial and business circles, having attained their affluence in a liberal and democratic society, will put their influence at the disposal of that society in support of the principles it holds;

(b) whether such circles can accept the proposition that their interests and those of the United States and the community of nations are best served in the modern world by the elimination of apartheid;

(c) whether such circles possessing as they do substantial means that if used strategically can change the course of history in contemporary South Africa will join others in discharging their responsibilities to support and advance the cause of human rights;

(d) whether leaders will come forward from these circles on their own volition to cooperate with leaders of other segments or our own society in planning and mounting a relentless campaign against apartheid;

(e) whether the United States Government will see that its obligation is to take every necessary measure to create an economic and diplomatic environment conducive to the participation of business and financial circles in the campaign against apartheid;

(f) whether the United States Government will employ its powers or obtain such powers to deter and prevent American companies and banks from extending aid and comfort to the garrison state that upholds apartheid in South Africa.