Memorandum II

# The Effect of Economic Sanctions on the Union of South Africa

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Sanctions are political in intent and politically inspired, yet economic pressure has remained a favorite method of enforcing the will of nations on other nations. Since one nation can usually not affect directly the internal production of another nation, except to the extent it has direct investment and/or manpower in the latter nation, sanctions automatically refer to interference in the international trade and payments of nations. This alone poses special problems, for "international trade is a two-way street." Thus we can not interfere in the international trade of one nation, especially if a large body like the United Nations imposes the sanctions, without affecting world trade and international payments in general.

What, then, is the general economic prospect and outcome concerning the possibility of economic sanctions against South Africa? We can not know beforehand what particular form the proposed sanctions may take. We will assume, however, that they will amount to a boycott of South African goods, either in general or directed at particular key items.

South African exports (of goods excluding gold), gold exports, and net national income are given in Table I. Also we have computed the relationship between exports and national income and between exports plus gold exports and national income.

Table I. National Income, Exports, and Gold Exports of South Africa (£ South African millions)

| | Net Natl Income[1] | Exports[2] | Percentage Natl Income | Gold Exps[2] | Total Exps | Percentage Natl Income |
|---|---|---|---|---|---|---|
| 1958 | 1,757,200 | 391,407 | 22.27 | 221,869 | 613,276 | 34.90 |
| 1959 | 1,798,300 | 428,916 | 23.85 | 242,147 | 671,063 | 37.32 |

1. Year beginning June 1.
2. Year beginning January 1.

(Source: Finance and Trade Review; Volksas Ltd., June 1960; pp 109,113.)

Except for the role of gold South Africa is a typical nation, with exports playing a highly significant part in national income. This, of course, makes South Africa extremely vulnerable to outside pressure. If we presume a boycott program to be effective enough to reduce exports by one-third (not including gold), then South Africa's national income would tend to fall initially by seven to eight percent. The net effect can not be predicted since this would be offset by a fall in imports (not including possible retaliation), the actual drop of imports depending on South Africa's propensity to import. (Any fall in a nation's income, which also means a fall in expenditures, will produce a drop in expenditures not only on domestically produced goods, but also on imports. This includes a drop in expenditures on foreign raw materials used in domestic items that now face decreased demand.) The downward effect on national income would be multiplied by the secondary effects on internal spending. The situation would also be aggravated by pure monetary problems. Gold exports are roughly equal to South Africa's negative balance of payments. However, normally this does not represent any drain on bank reserves, since gold production usually exceeds gold exports. (In 1958 gold production was valued at £220,025,000, and in 1959 at £250,136,000.) Given a drop in exports that was not matched by drop in imports, the gold drain necessary to keep imports up would begin to affect central bank reserves and internal credit generally. Loss of export markets means not only downward pressure on national income, and possible loss of gold reserves, but also loss of precious foreign exchange for a negative balance country.

The overall figures may conceal the importance of the parts. Table II shows an enumeration of the major nations trading with South Africa. Given are the imports by value supplied by the leading nations, and the exports by value shipped by South Africa to the leading markets. Two entries appear for a nation only if it is both a leading importer and exporter. Table III shows the same information for the first five months of 1960, with the percentage role played by the individual nations in South Africa's total international trade.

Table II. International Trade of South Africa
(£ South African millions)

| | Imports | | Exports | |
|---|---|---|---|---|
| | 1957 | 1958 | 1957 | 1958 |
| United Kingdom | 179.19 | 187.54 | 110.10 | 106.75 |
| United States | 107.56 | 97.22 | 25.28 | 25.30 |
| Germany | 44.36 | 58.76 | 20.24 | 13.99 |
| Iran | 19.62 | 22.62 | | |
| Canada | 16.95 | 18.15 | | |
| Japan | 17.59 | 14.12 | 9.03 | 4.85 |
| Rhodesia and Nyasaland | 13.53 | 12.41 | 58.14 | 49.08 |
| Belgium | 12.20 | 9.60 | 18.28 | 13.21 |
| Congo | 9.65 | 12.14 | | |
| France | 10.20 | 10.06 | 15.12 | 10.52 |
| Italy | 10.68 | 11.63 | 17.21 | 14.84 |
| Netherlands | 11.05 | 11.39 | 11.39 | 7.82 |

(Source: Yearbook of International Trade Statistics; United Nations, Statistical Office, Department of Economics and Social Affairs, New York, 1959.)

Table III. International Trade of South Africa
January-May 1960 (£ South African millions.)[1]

| | Imports | Percentage of Total | Exports | Percentage of Total |
|---|---|---|---|---|
| World | 231.85 | | 188.15 | |
| Commonwealth and Eire | 100.84 | 43.5 | 93.75 | 49.8 |
| United Kingdom | 65.99 | 28.5 | 56.35 | 30.0 |
| United States | 42.35 | 18.3 | 14.17 | 7.5 |
| Germany | 22.61 | 9.8 | 7.45 | 4.0 |
| Iran | 7.79 | 3.4 | | |
| Canada | 8.36 | 3.6 | | |
| Japan | 7.52 | 3.2 | 8.12 | 4.3 |
| Rhodesia and Nyasaland | 6.06 | 2.6 | 25.30 | 13.4 |
| Belgium | | | 6.73 | 3.6 |
| Congo | 6.18 | 2.7 | | |
| France | | | 6.11 | 3.2 |
| Italy | 6.79 | 2.9 | 6.18 | 3.3 |

(Source: Standard Bank Review; Standard Bank of South Africa Ltd., September 1960, p. 33.)

1. Original figures rounded.

Two factors stand out, the important role played by the Commonwealth in both exports and imports, and the important role played by Europe and the United States together. The most significant non-European country importing from South Africa is the Federation of Rhodesia and Nyasaland -- a member of the Commonwealth. In Table IV we find this picture reinforced. Here we have a breakdown of exports of South Africa according to major areas of destination. It should be noted that these figures, from different sources, are not directly comparable to the figures given in Table I. They are roughly equivalent if we subtract re-exports from our earlier figures.

Table IV. South African Exports by Destination
($ United States millions)

| | World | United States | Continental Western Europe | Overseas Assoc. of West Europe |
|---|---|---|---|---|
| 1957 | 1,128.9 | 71.5 | 251.5 | 27.5 |
| 1958 | 997.0 | 71.5 | 186.9 | 29.8 |

| | Sterling Area | United Kingdom | Australia, New Zealand, Rhodesia and Nyasaland |
|---|---|---|---|
| 1957 | 529.3 | 308.3 | 175.2 |
| 1958 | 490.0 | 296.1 | 151.2 |

(Source: United Nations Statistical YearBook, 1959; Statistical Office, Department of Economic and Social Affairs, New York, 1959.)

It is important to note the various destinations of exports because the will of the United Nations is not a separate will, but a conglomerate of individual wills. Thus a group of nations may be asked to impose sanctions that certainly will adversely affect South Africa, but will also affect the rest of the world. Most important, any adverse effects felt outside South Africa will be unevenly distributed. The nations of Western Europe, the United States, and the Commonwealth as a group will be asked, in effect, to implement the program. From the point of view of imports from South Africa, the sacrifice is, in truth, not great. The major exports of South Africa are given in Table V. In large part these are items for which the leading importing countries can find substitute sources (with a few important exceptions).

Table V. South African Exports
(£ South African millions)

| | 1957 | 1958 |
|---|---|---|
| Wool, greasy | 55.60 | 33.45 |
| Maize meal | 19.34 | 17.87 |
| Fruit, citrus | 13.14 | 10.99 |
| Fruit, preserved | 10.61 | 13.32 |
| Wool, other | 11.53 | 9.06 |
| Machines and parts | 10.29 | 8.87 |
| Lead ore concentrates | 10.65 | 6.43 |
| Fissionable material | 49.99 | 53.21 |
| Asbestos, crude | 10.95 | 10.42 |
| Diamonds, rough and uncut | 24.69 | 20.57 |
| Diamonds, cut and polished | 10.14 | 10.11 |

(Source: United Nations Yearbook of International Trade Statistics 1958, United Nations Statistical Office, Department of Economic and Social Affairs, New York 1959.)

Willingness to implement such a program may rest less on the need for South African imports than on considerations of South Africa as a market. In large part the major importing nations, as shown in Table IV, are also the major exporters to South Africa. Since a fall in exports and national income for South Africa would be followed by some fall in imports, this relationship of the major trading nations must be kept in mind.

Given any program of sanctions, the problem of retaliation looms. That South Africa would lose in an economic war against the entire United Nations is evident. But, again, the individual nations become important. In 1958 the most important single export was fissionable material. Certainly the United States and the United Kingdom would be sensitive to any interference in such shipments from South Africa. Although diamonds do not possess the same strategic importance, any embargo on diamond exports would affect the most important of South Africa's trading partners. Also the uneven effect on South Africa's trading partners depends on their individual trading position. As shown in Tables II and III, the United Kingdom, the United States, Germany, Iran, Canada, Japan, the Congo, and to a lesser extent the Netherlands enjoy a favorable balance of trade with South Africa. Any retaliation on the part of South Africa against imports would certainly be directed against these nations in particular. The nations that at the present have an unfavorable balance of trade may find themselves in an improved position in their international trade payments as a result of sanctions. Importation of South African goods would fall, and although the unfavorable balance nations may find exports down as South Africa's imports fall generally, there is every possibility that the gap between imports and exports would narrow since there would be no economic incentive for South Africa to reduce imports further from nations with whom she enjoys a favorable balance.

Possibly most important are the financial and monetary links that South Africa has with the major nations. Any interference in the gold flow from South Africa, no matter who initiated it, would have effects not only on South Africa, but also on the major banking nations. In addition, South Africa maintains large balances in foreign central banks, and bank reserves in other foreign assets (currency, short term government obligations, etc.). In 1959 the reserves of the South African central bank included £67,451,000 in foreign assets (Finance and Trade Review; Volksas Ltd., June 1960, p. 110). Liquidation of these assets would, of course, provide monetary problems for the nations concerned, particularly the United Kingdom. Also, South Africa has a negative flow of investment income; the net flow in 1958 was £72 million (United Nations Statistical Yearbook 1959, Statistical Office, Department of Economic and Social Affairs, New York, 1959). Foreign investment in South Africa is at a high enough level to provide a net flow of income earned on this investment out of the country of a rather significant amount. South Africa, caught in a squeeze for foreign exchange, would most likely look to interference in this flow as one means of preserving its foreign exchange reserves. Other possibilities exist for interference in the capital accounts as well.

Economic sanctions would certainly put extreme pressure on South Africa, affecting national income, foreign exchange, and the monetary sector of the economy. In addition, however, the sacrifice called for on the part of the member nations would be uneven, and the success of any program would depend in particular on the cooperation of Western Europe, the United States, and the Commonwealth.