Sanction Dilemmas

Some implications of economic sanctions against South Africa

Scandinavian Institute of African Studies, Uppsala 1988
Foreword

With this issue of *Discussion Papers*, the Scandinavian Institute of African Studies launches a new series of documents. Our intention is to provide a forum for the presentation of and comments on recent literature, covering issues relating to ongoing activities at the Institute. Of primary concern are current or future thematic research. Currently two thematic programmes are based at the Institute—the Southern Africa Programme, from which this issue emanates, and the Human Life in Arid Lands Programme. A third programme is being implemented on the theme Urban Development in Rural Context in Africa.

The series now introduced is called *Discussion Papers* to indicate that the framework will be flexible. The essays should concern recent literature and events. The size of each paper will be modest. The authors are asked to highlight the issues that they find to be important, rather than trying to be comprehensive.

The *Discussion Papers* series provides a forum for the critical examination of other researchers' studies and conclusions on central development issues. It thereby supplements the *Research Report* series of the Institute; a forum for the presentation of empirical research results.

It is hoped that the *Discussion Papers* will stimulate discussion among researchers, aid administrators, non-governmental organisations, media people and other interested parties. The series should also be useful as an instrument in the process of identifying issues suited for further studies and research.

Uppsala, November 1988

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Director
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<tr>
<td>ANC</td>
<td>African National Congress of South Africa</td>
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<td>FRELIMO</td>
<td>Frente de Libertação de Moçambique</td>
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<td>GDP</td>
<td>Gross Domestic Product</td>
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<td>MNR</td>
<td>Mozambique National Resistance</td>
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<td>OECD</td>
<td>Organisation for Economic Cooperation and Development</td>
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<td>R</td>
<td>South African Rand</td>
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<td>OPEC</td>
<td>Organization of Petroleum Exporting Countries</td>
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<td>SADCC</td>
<td>Southern African Development Coordination Conference</td>
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<td>SARB</td>
<td>South African Reserve Bank</td>
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<td>SWAPO</td>
<td>South West Africa People's Organisation</td>
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<td>UDI</td>
<td>Unilateral Declaration of Independence</td>
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<td>UN</td>
<td>United Nations</td>
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<td>UNITA</td>
<td>União Nacional para a Independência Total de Angola</td>
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<td>USD</td>
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Preface

This first issue of the new series *Discussion Papers* is produced within the framework of the recently launched Southern Africa Programme. This programme has been conceived by a joint initiative of the Scandinavian Institute of African Studies and the Swedish International Development Authority.

The research programme has three main objectives: firstly, to strengthen Nordic research on Southern Africa; secondly, to increase the capacity for studies of topics relevant to the discussion on future Nordic development assistance to Southern Africa; thirdly, to provide information about Southern Africa in the Nordic countries.

One of the aims set within the research programme is to analyse the role of South Africa in the region. The present paper forms part of such an analysis.

The paper was also presented at a joint Nordic-Southern African conference in Harare on September 21–23, 1988, arranged by the Scandinavian Institute of African Studies and the Southern Africa Development Research Association on the theme *Regional Cooperation in Southern Africa, with a Post-Apartheid-Perspective*. We extend our thanks to all those in Southern Africa and Scandinavia who have contributed with comments.

Bertil Odén
*Coordinator for the Southern Africa Programme*
1. INTRODUCTION

Great waves of resistance against the apartheid regime seem to appear with ever increasing frequency: as points of reference one can mention Sharpeville 1960, Soweto 1976, and the upsurge of popular protest beginning in 1984, which mark the high points of social insurrection. If these dates tell us anything, it is that resistance does not subside in spite of the fact that the apartheid state is (still) capable of suppressing the visible aspects of the resistance. They may also reflect a development where South Africa is getting closer and closer to a state of “ungovernability”, a situation where only massive recourse to violence and oppression keeps the apartheid regime in power.

The latest wave of resistance, beginning in 1984, contributed to putting economic sanctions back on the international agenda.

In recent years a series of different laws and regulations have been adopted by individual countries as well as by groups of countries such as the European Economic Community, in order to restrict trade and other economic relations with South Africa. An overview of the present state of sanctions is presented in the Appendix. It demonstrates the great variety in the scope of sanctions decided on as well as their almost universal presence as part, albeit limited, of Western economic policy towards South Africa.

However, sanctions applied by governments form only part of the picture, since a series of firms, banks and insurance companies have withdrawn from South Africa or cleared their portfolios of South African shares, bonds or assets in general. Thus we witness what could be interpreted as an alliance of public and private agents, grouped together in what seems to be an effort to increase the pressure on South Africa in order to bring apartheid to an end. What we will discuss in this essay is that, what is really happening, is not quite so straightforward.

In the academic debate, the sanctions issue has overtaken the recently so fashionable post-apartheid perspective. This is probably due to a combination of factors, such as the sanctions (albeit incomplete) applied by the dominating capitalist powers and especially by the United States from late 1986, as well as the realization that the struggle to end apartheid may take many years yet, and hence that the current development of South Africa may need more attention than a rather distant post-apartheid society. In addition, as perceived from the outside, sanctions provide practically the only weapon—effective or not—that can be wielded in order to increase pressure on the South African regime, apart from political and material support for the liberation movements, the ANC of South Africa and SWAPO of Namibia. As seen from the inside, however, sanctions is just one of the weapons in the armoury, and probably not the most important one.
In any case, there has been an increase in sanctions literature in recent years, most of it advocating sanctions but some arguing that sanctions would be counter-productive. The purpose of the present essay is to delineate a field of research and investigation rather than to try to supply a complete catalogue of the sanctions issue. We have, therefore, permitted ourselves to be sketchy and incomplete, letting the recent literature and our own judgement guide us.

Before starting our brief exposé, let us clarify our own position. Although our focus is exclusively on economic sanctions, we believe that it is the global impact of sanctions—political, cultural, academic, sports and economic—which, in the final analysis, may be a force that makes a vital contribution to bringing the apartheid system down. Not least because of their psychological effects.

We believe that economic sanctions work in the sense that they significantly limit the available options and margins for manoeuvre available to the apartheid regime.

Nevertheless, we consider the sanctions issue problematic. We hold some of the claims of the sanctions resisters to be true, e.g. that sanctions hurt the black population more than the white; that black unemployment will grow faster than it otherwise would have grown; that sections of the white community will move into their celebrated laager (although other sections might move in the opposite direction and thereby increase internal white contradictions); that some Front Line States will suffer repercussions in the form of South African retaliation for sanctions imposed, etc.

In this sense, sanctions constitute a dilemma: they do work, but the costs may be high and worse, be paid for by the "wrong" groups. Still, in the perspective of the struggle being waged in Southern Africa and considering the present balance of forces in the region, economic sanctions constitute an important lever to bring about an end to the apartheid regime.
2. ECONOMIC SANCTIONS—WHAT FOR?

With equal fervor, on either side of the great sanctions divide, experts argue: sanctions do not work/sanctions do work. Worse, perhaps, is the fact that the two sides sometimes refer to the same historical and scientific experiences in order to sustain their mutually contradictory positions. The case of Rhodesia will be treated in the next section; here we would like to cite as an example of this confusing situation the mammoth investigation by Hußbauer and Schott on 103 experiences of economic sanctions.\(^1\) According to protagonists such as Joseph Hanlon and Roger Omond, this study shows that “36% were ‘successful’”,\(^2\) whereas an antagonist like Merle Lipton claims that the study shows that “in about a third of the cases surveyed [...] economic sanctions achieved some partial success”. More importantly, however, she says that the study concludes “that in the majority of cases nations have resisted economic sanctions, and that the record is ‘particularly dismal [...] for large international campaigns’ in pursuit of ambitious ‘high policy’ goals”.\(^3\) Thus we are led to assume that the South African case is exactly such a large international campaign in the pursuit of a high policy goal.

This situation enables some participants in the debate to shape the evidence they need, avoiding to clarify:

* what goals sanctions are meant to achieve;
* what role sanctions are to play in order to achieve those goals;
* what kind of sanctions are being contemplated;
* the time frame in mind.

One example at the political level of how this neglect leads to the preferred conclusion is given by President Reagan when reporting back to the US Congress on the result of the first year of US sanctions against South Africa. “I regret that I am unable to report significant progress leading to the end of apartheid and the establishment of a nonracial democracy in South Africa”, the President communicated to Congress and concluded that “the imposition of additional measures [...] would exacerbate these negative developments without any additional positive benefits in support of our objectives”.\(^4\)

The President’s conclusion is obviously the one the Reagan administration wishes to draw; it would have made equal sense to argue that since sanctions have not yet brought about the desired change, only further sanctions would be likely to force such a turn in the policy of the apartheid regime. Furthermore, it is this latter position which the
US Comprehensive Anti-Apartheid Act has made its own when it maintains:

It shall be the policy of the United States to impose additional measures against the Government of South Africa if substantial progress has not been made within twelve months of the date of enactment of this Act in ending the system of apartheid and establishing a nonracial democracy.5

Thus, whether lack of progress calls for additional or fewer sanctions, is evidently a matter of preference.

Economic sanctions can be imposed by a series of bodies and they may be more or less comprehensive and mandatory. In relation to South Africa, the discussion focuses on the following kinds of sanctions:

* Sanctions decided on by the UN Security Council, which thus become mandatory for all UN member states. Such sanctions may be comprehensive, as they were in the case of Rhodesia from 1968, or they may be partial. As far as South Africa is concerned, the only mandatory sanctions decision to date is the Arms Embargo of 1977;

* The UN General Assembly may also pass sanctions, but such sanctions are not mandatory. In effect, they have the same status as Security Council recommendations, which encourage member states to take their own measures;

* Individual countries or groups of countries may decide upon comprehensive or partial sanctions. Closest to the comprehensive line so far is the position of the Nordic countries, whereas the 1985–1986 upsurge in sanctions generally is of a partial character. The most important sanction of this type is the voluntary OPEC recommendation of 1973 not to deliver oil to South Africa;

* Targeted sanctions are sanctions which are to be revoked when a stated goal in a limited field is achieved. Such sanctions have as yet not been introduced, although it is conceivable that such sanctions may be levied to force, for example, South Africa to release all political prisoners.

The difficulty with the latter type of sanctions is that in most cases it is rather difficult to unambiguously define the conditions to be met in order to revoke certain sanctions. And of course, the familiar contradiction of the relationship between aims and means will still cause debate: if the aim is not reached, is the correct conclusion that the means were erroneous or should still more “means” be applied?

More important than the sanctions imposed by governments or the UN Security Council, have been measures taken by independent
multinational firms to withdraw from South Africa, as well as by investors such as banks and insurance companies to disinvest (i.e. to sell out their portfolios of South African assets). Paradoxically, in most instances these decisions were based on purely economic and political considerations of the parties concerned and were, thus, taken in advance of the imposition of those government regulations that the companies fiercely oppose. Withdrawal and disinvestment decisions were simply taken against the background of public opinion which made it a political embarrassment to hold South African assets when the South African activities of these corporations were exposed by well-informed pressure groups at home; or in order to avert loss of business as a consequence of threats made by large depositors, such as churches and universities and even by municipalities and governments. The scope of these kinds of sanctions will be further discussed in Section 6 below.

Let us look at the issue from another angle. All those involved in discussing the likely effects of the imposition of sanctions are self-professed anti-racists and hence abhor the apartheid system. Thus, claiming that the sanctions resisters are racists—as is sometimes done in the Swedish debate—does not lead us very far when those who resist sanctions themselves argue that they want to see apartheid abolished as soon as possible and that they are against sanctions because they believe that sanctions would not contribute to this goal.

Sanctions protagonist Richard Moorsom, for example, maintains that “the primary objective of sanctions is not changes in particular laws, but the overthrow of racial tyranny, both as a legal and administrative structure of racial oppression and as a political system of white minority rule”\(^6\). We find it hard to believe that this should be contrary to the ambitions of at least part of the Western World’s anti-sanctions lobby.

What this lobby argues, then, is something else. It claims that sanctions do work, but that they have the opposite results of those intended, i.e. that they prolong apartheid instead of contributing to its termination. The reason, they maintain, is that sanctions reduce economic growth and thus slow down political reform; that isolation forces the Boers to retreat into their laager rather than to come forward to the negotiating table.

Evidently, we are here entering an area related more to political philosophy than to economics. What are the basic mechanisms for change in a society such as South Africa? Is it reasonable to expect evolutionary change as a result of objective economic changes and needs? If so, a case could be made for increasing economic exchange in order to stimulate an evolutionary change towards democracy of the Western kind.

Or does it seem more plausible that the South African regime will change only if forced? In the latter case, a combination of forces—in-
ternal and external—would obviously reinforce each other in a joint effort to break the political hegemony of the Boers, which is maintained at the expense not only of the majority of South Africans but also of the capitalist interests which demand increasing access to markets and finance, abroad as well as at home.

Also, the "logical" assumption that modern capitalism in South Africa demands democracy because it lies in its own self-interest, has recently been questioned in a comprehensive study of the most enlightened South African conglomerate of them all, the Oppenheimer empire. Noting that Oppenheimer's power has been built on a mixture of diamonds, gold, migrant labour and apartheid, the authors conclude that today's liberal appearance is "classic" Oppenheimer make-believe, "the well-tried image of disapproval, tempered by the practice of cooperation" [with the apartheid regime].

In any case, it seems as if the argument against sanctions has switched from the stand that sanctions do not work to a position which claims that they do work—but that their effects are counter-productive.

Sanctions antagonists normally maintain that sanctions are intended to be the main agent of change. In this way they find it easy to show that sanctions by themselves will not do the trick. The protagonists, on the other hand, relegate sanctions to a more modest position as one factor among many, and possibly not the most important one. This difference of perspective also adds to the confusion regarding sanctions.

In the former case—sanctions as the main agent of change—we would normally expect delivery only when sanctions are imposed by superior powers, when they are comprehensive and effective, and when they are applied unexpectedly, hence not giving the boycotted party time to adapt. It may have been this kind of reasoning which led the then British Prime Minister Harold Wilson in January 1966 to claim that sanctions against Rhodesia would be effective in "weeks not months".

In Rhodesia, it took 14 years for a settlement to come about. In the South African case, we have reached neither the phase of mandatory nor of comprehensive sanctions, and it seems reasonable to assume that sanctions which may be applied to South Africa in the coming years will continue along the lines of those presently in force, i.e. partial sanctions implemented by individual countries or groups of countries. Furthermore, South Africa has enjoyed a long period in which it has been able to prepare for the imposition of sanctions as well as to mount various sanctions busting operations.

Thus, a long-term perspective must be used when assessing the impact of sanctions on South Africa. Equally important as the time frame is whether sanctions are treated separately or collectively, that is to say, if the cumulative effects are considered or not. A partial analysis is likely to conclude that individual sanctions would have only a
marginal impact on the South African economy. True, international financial sanctions or trade boycotts, if imposed by South Africa’s most important partners, would hurt the South African economy considerably, but except for gold, the apartheid regime would survive most of these steps if their effects were considered one by one.

However, aggregating each measure into a compounded picture of ever increasing pressure, means that each step would be significant beyond itself, as yet another external force which limits the options available and increases costs. In this way, individual sanctions decisions by governments or enterprises grow more important as they become part of a major international effort to isolate the apartheid regime.

Of course, the efficacy of individual sanctions will be questioned with the argument that they may be breached, and that compliance with sanctions decisions is impossible to enforce. But this argument is beside the point as for instance Hanlon has stressed:9 part of the effect of any sanctions measure is precisely the extra costs incurred in breach- ing that particular sanction, the considerable “apartheid tax”, as it were, imposed on South Africa by the outside world. Thus, from an economic point of view, a “busted” sanction may hurt almost as much as one that is enforced.

Notes

3. RHODESIAN EXPERIENCES

In most arguments about the effects of sanctions, the Rhodesian experience is cited as a "case in point". Depending on one's political position, the development of Rhodesia from the Unilateral Declaration of Independence (UDI) by the Smith regime in 1965, until Zimbabwe gained its independence in 1980, is referred to in order to substantiate one's chosen option: sanctions do/do not work!

Likewise, it is common for politicians to express their doubts as to the efficacy of sanctions. The British Prime Minister, Margaret Thatcher, for one, made her own negative interpretation when she said: "There is no case in history that I know of where punitive, general economic sanctions have been effective to bring about internal change".¹ And President Reagan continues "to believe that punitive sanctions are not the best way to bring freedom to South Africa".²

In a rather more disguised form, Merle Lipton expresses her doubts that sanctions contributed to the settlement in Zimbabwe. Stating that the case is "controversial", she summarizes the impact of sanctions on Rhodesia as follows:³

* "sanctions took a long time to work".
* "sanctions imposed some economic costs on Rhodesia, but for much of the period, the effects were perverse, stimulating rapid growth";
* sanctions did not prove an alternative to violence;
* sanctions damaged the neighbouring economies more than Rhodesia; and
* the economic downturn of Rhodesia as of 1974 was caused by the oil crisis rather than by sanctions.

From this perspective, it is no wonder that Lipton can conclude that the effects of sanctions on Rhodesia are "ambiguous".

In essence, Rhodesia passed through three distinct phases from UDI to independence.⁴ These will be dealt with below.

Phase I: Reorganization 1965–1968

Comprehensive sanctions were not applied immediately to Rhodesia. In fact, the UN Security Council needed two and a half years in order to agree on comprehensive and mandatory sanctions against Rhodesia in May 1968. On its way to adopting this position, the Security Council decided to recommend voluntary sanctions in November 1965, slowly advancing to mandatory but not comprehensive sanctions in Decem-
ber 1966. These latter sanctions covered 60% of Rhodesian exports but only 15% of her imports.⁵

In this way, the Rhodesian government had the opportunity of setting up its sanctions busting system as well as of organizing alternative supply routes taking advantage of South African and Portuguese complicity. Also, transport links with Zambia were maintained (until 1973) which gave Rhodesia valuable foreign exchange earnings.

Phase II: Hot-house growth 1969–1974

By 1969, the Rhodesian economy began to show impressive growth rates, averaging almost 8% in constant prices between 1970–1974. Similarly, GDP/capita grew by 21% (in constant prices) in this period, from R$ 185 to R$ 223.⁶

There are several reasons for this period of growth:

* At UDI, Rhodesian industry had an excess capacity of approximately 25%, partly because capacity had been expanded in anticipation of future profits to be reaped from the regional federation between Rhodesia, Zambia, and Malawi. When these arrangements collapsed in 1963, idle capacity resulted in Rhodesia. With UDI, a period of import substitution followed. This substitution had not advanced very far before UDI;

* Although mandatory and comprehensive, de facto sanctions were never rigorously applied. Besides the fact that South Africa and Portugal openly breached the blockade, sanctions busting grew and became generalized with a whole series of entrepreneurs, transnational companies as well as governments becoming involved in illegal transactions.⁷ Between 1966 and 1970, e.g., Rhodesian exports rose by 45%, primarily supplying the major Western markets. During the same period, imports grew by 40%.⁸ Sanctions busting activities also gained official blessing when the USA decided to import Rhodesian chrome, deemed of strategic interest to the US military industry. Thus, until repealed in 1976, the so-called Byrd amendment of 1971 enabled US purchases of chrome to constitute a major prop for the Rhodesian economy;

* Direct foreign investments grew at an impressive rate, basically due to the prohibition on the export of capital from Rhodesia. Thus, the total foreign capital stock—most of it either British or South African—trebled between 1963–1979. Consequently, foreign capital increased its share of total investments, from 25% during 1962–1965 to 37% in the period 1965–1975.⁹
Although in a sense the second phase is one of economic success, the plight of the black majority did not improve. In spite of an increasing overall per capita income, more than 340,000 of the 570,000 who entered the labour force during this period (i.e., 60%), were unable to find work. Simultaneously, growing numbers of the rural population were herded into strategic hamlets, euphemistically called “protected villages”. By the mid-seventies, more than 200 such villages had been constructed, housing over half a million people.

Thus, in many respects it was a strange “Rhodesian wonder” which appeared for a few years, only doing well if judged by macro-economic indicators alone, while totally disregarding the impact on social and racial differentiation.

**Phase III: Stagnation and downfall 1975–1979.**

Beginning in 1975, the Rhodesian economy definitely turned downwards. GDP decreased (in constant terms) every single year from 1975 up to and including 1979. A whole series of factors contributed to this turn-about:

* the “oil shock” of 1973 trebled oil prices, which hit Rhodesia harder than most countries since it had to pay a “premium” on its oil imports in order to get through the blockade. Furthermore, the international economic stagnation which followed the increases in oil prices, reduced the demand for Rhodesian raw materials and consequently increased the difficulty—or at least the discount needed—to sell the boycotted goods;

* although sanctions busting activities in general managed to break the boycott, the costs were staggering. It is estimated that Rhodesia had to sell at a general 20% discount, and import at an equal extra charge. For individual products, the discount could be higher, as in the case of tobacco—Rhodesia’s major export product at the time of UDI—where the price discount was approximately 30%. In general, sanctions reduced foreign exchange earnings by 40%, counting both exports and imports. In addition, volumes traded were affected by the sanctions. All in all, Rhodesia’s exports earnings during the sanctions period would have been 60% higher than they actually were, had sanctions—incomplete as they were for most of the time—not been applied;

* the isolation of Rhodesia also grew more complete, beginning in 1973 when Rhodesia herself closed the border with Zambia, alleging Zambian support of the Zimbabwean guerilla fighters. In 1976, less than a year after achieving independence, Mozambique decided to join the UN blockade and closed Rhodesia’s two sea outlets (Maputo and
Beira). Subsequently, as mentioned above, the Byrd amendment was repealed, and US imports of Rhodesian chrome ceased. This increased significantly the pressure on the Rhodesian economy;

* the liberation war also gained momentum during this period, increasing the political and economic burden considerably. In 1977, the war effort already consumed 40% of the government budget, and by 1979 an estimated R$ 1–1.5 million were spent each day to contain the liberation war.\textsuperscript{13}

Simultaneously, the need for replacements and new investments grew stronger as the first, simple phase of import substitution came to an end, and as old machinery and equipment wore out.

The economic and political crisis can be summed up by looking at three indicators:\textsuperscript{14}

* capacity utilization, which had reached 98% in 1974, fell back to 75% in 1978;

* GDP/capita decreased every year between 1974–1979, finally hitting the pre-boom level of 1968;

* net settler migration turned negative in 1976, the first year since 1966 when more whites left than entered Rhodesia. Until independence, emigration continued to outstrip the dwindling immigration flows.

Towards the end of the 1970s, the Smith regime encountered a desperate situation with fewer economic resources to meet growing needs. Sanctions obviously did not create this situation, nor did they force Rhodesia to the Lancaster House negotiating table in 1979. But they clearly reduced options, increased the pressure and weakened the economic and political prospects for the survival of the regime.

Or to put it simply: Rhodesia could have endured (for some time) war or sanctions; but it could not handle both at the same time. Thus sanctions were important, and this in spite of the fact that they were "busted" constantly and systematically. And furthermore: coupled with armed resistance, sanctions turned out to constitute a lethal mixture as they set limits to the regime's possibilities of absorbing the growing labour force, at the same time as the ever increasing demands of the war could not be met, and the impoverishment of the black population encouraged ever more young people to join the liberation struggle.

In this perspective, sanctions did weaken the regime, reduce its resources, and limit its options. Therefore, and in the words of Colin Stoneman, the lessons to be drawn from Rhodesia,

are not that comprehensive sanctions were ineffective, or took a very long time, or produced the 'perverse' result of 'hot-house' growth. The main conclusion is that sanctions which are not substantially comprehensive (in terms of trading
partners as well as the range of economic measures) are unlikely to be effective.\textsuperscript{15}

Is this the lesson to be drawn from the Rhodesian case, that sanctions which are comprehensive and effective do hurt, but that sanctions which are neither, are mostly only a minor nuisance? Maybe, but it seems rather self-evident. There is another lesson which we consider more important, and that is the need to look at the total impact of economic sanctions on society as a whole, adding the individual effects, looking at political factors as well as economic exposure, and including objective facts such as population growth. This would allow us to piece together a more complete picture of how and in what sense economic sanctions are likely to affect a country such as South Africa. In the following section, we sketch what such an approach would imply in the South African case.

Notes

3. Lipton, \textit{op.cit.}, pp. 76-77.
5. Hanlon & Omond, \textit{op.cit.}, p. 204.
12. Elizabeth Schmidt: \textit{op. cit.}, pp. 5 and 8.
4. SANCTIONS AND THE STRUCTURAL WEAKNESSES OF THE SOUTH AFRICAN ECONOMY

Discussing how economic sanctions would affect South Africa, while keeping the Rhodesian experience in mind, may well highlight the differences between the two cases rather than the similarities. As far as South Africa’s importance to the world economy is concerned, there is no comparison. Also, the internal South African market—whether white or black—is far superior to the one in Rhodesia, implying there are opportunities for extending an import-substitution policy to more areas than were possible in Rhodesia. Furthermore, in contrast to land-locked Rhodesia, South Africa has ample access to ports for covert trading operations.

On the other hand, some of the factors which reduced the burden of sanctions on the Smith regime, seem to be absent in the case of South Africa. The first, easy phase of import substitution, e.g., has long since been completed in South Africa, as she reacted to the increasing pressure being applied over the successive crisis periods, beginning, perhaps, with Sharpeville in 1960. Another difference is that South Africa lacks a “big brother”, a state that could assume the major burden of operating as general support for the regime, more or less in the way that South Africa aided Rhodesia.

Some of these differences may, however, in the final analysis constitute strengths rather than weaknesses. The need to “go it alone”, e.g., liberates the apartheid regime from the risk of having the carpet pulled out from under it, in the way that the final nail in the Rhodesian coffin may well have been South African insistence on a negotiated settlement.¹

Another difference is the long history of resistance to the apartheid system. In recent years, say from 1984, this resistance has achieved an impressive social and political amplitude. Rhodesia never experienced anything comparable. On the other hand, the war of liberation against the Smith regime, supported especially by FRELIMO in Mozambique, gained a remarkable strength in the course of the struggle. From the early 1970s it became the major threat to the Smith regime.

Bearing all this in mind, the Rhodesian lesson does not really tell us much about the impact of sanctions on South Africa. But the internal South African situation itself does reveal enough about the limits that operate today on the political and economic scene. In this context we will restrict ourselves to touch briefly upon a few of the numerous issues that are raised in the debate. Most important are those related to the structural weaknesses of the economy, which makes it vulnerable to the aggregated effects of partial sanctions.
Employment—unemployment

Unemployment figures naturally constitute a contested terrain. The South African Reserve Bank (SARB), e.g., provides the estimate that black unemployment decreased from 1.2 million to 0.9 million from July 1986 to September 1987, or from 20% to 15% of the black labour force (presumably excluding the so-called independent homelands). These figures are daunting enough as they are; however, more realistic estimates put black unemployment at around 30% of the black labour force. This should correspond to 3–4 million unemployed Africans, if the so-called independent homelands are included.

Be that as it may, the fact is that South Africa is already today confronted by an extremely grave unemployment situation. Approximately 300 000 people—87% thereof black—enter the labour force each year. Required annual GDP growth just in order to absorb this increase in the labour force has been estimated at 5%. Now, compare this to the real growth rate for 1985–1987, which were −1, 1, and 2.5% respectively.

In the words of SARB, “significant declines in the average standard of living” have been felt in 1981–1983, and again in 1985–1986. In 1987, the economy’s growth rate almost matched the population increase, which led SARB to conclude that 1987 “compared favourably” with the preceding years. In fact, average figures hide more than they disclose, and the poor majority of the population has continued to suffer from economic decline and impoverishment (if for no other reason, simply because black population growth is considerably higher than the average rate).

The magnitude of unemployment caused by population growth alone is equal to that assumed to follow from the imposition of partial but effective sanctions against South Africa. Various estimates presented in 1986 give a range of 343 000 to 430 000 black unemployed as a result of only a 20% effective boycott of South African exports. What this means is that sanctions would aggravate a situation which already has reached crisis proportions.

The only way out of this situation is a drastic increase in investment levels, either through a massive inflow of external capital, or an increase in the level of domestic investment. Neither option seems likely to be available to the apartheid regime.

In fact, capital outflows instead of inflows have marked the South African economy during six of the last nine years, most seriously in 1985–1987 which together ran up a long-term net capital outflow of R 5.2 billion. During the same period, more than twice as much—R 13.2 billion—in short-term capital also left South Africa (net).

The same negative trend is shown for gross domestic investments, which (in constant prices) have decreased continuously during the last five years. In 1987 they were only 75% of what they had been in 1982.
Or put in another way: gross fixed investments' share of GDP has fallen from 29% in 1980 to 19% in 1987.\(^7\)

As far as investments are concerned, the impact is long-term, and therefore of great significance. The present de facto level of investments only leaves some 15% for new, expansive investments. The remaining 85% is being absorbed just to make up for depreciation on assets.\(^8\)

In sum, then, it seems as if neither capital inflows nor investments are sufficient to alleviate the problem of structural unemployment. This problem becomes ever more serious as time goes by, simply because the population grows by almost 3% per annum.

On the political level, protests and demonstrations have spread throughout South Africa. An indication of how this popular protest movement has developed is the upsurge in strike activities during the 1980s in spite of the growing unemployment. In 1979, 100 registered strikes meant less than 100 000 man-days "lost". In 1986, close to 800 strikes involved more than one million man-days, and in 1987, the ten major strikes alone encompassed approximately 7 million man-days.\(^9\) At the time of writing, in June 1988, one single mass strike in protest against restrictions on 17 anti-apartheid organizations led millions of workers to stay at home for three days.

**Foreign and Domestic Debt**

South Africa's external debt is another sensitive area, where minor disturbances may create havoc. The problem is not the debt as such, although it reached 50% of GDP in 1985, but rather the extreme degree of short-term liabilities that South Africa has been forced to assume: in 1986, 72% of the USD 23 billion foreign debt was short-term, i.e. had a maturity of less than one year. This share has grown significantly since 1980, when it was "only" 49%.\(^10\)

Assuming that capital outflows will continue, South Africa's current account balance needs to run up a yearly surplus of R 5–6 billion just in order to service the foreign debt. Although South Africa actually achieved such surpluses in 1985–1987, the situation nevertheless continues to be volatile, in spite of the rescheduling agreements reached with the major creditors. Even minor disturbances of the balance of payments may have grave—and immediate—repercussions.

Of course, it is conceivable that the apartheid state could step in and assume responsibility for fuelling the economy in order to get it out of its present phase of stagnation. In fact, however, the budget deficit is already running at 26% of expenditures (1987/88) and a "standstill" in order to reduce public sector employment has been announced.\(^11\)

There are two ways to increase government resources: by borrowing or by increasing tax receipts. The public debt is already soaring, being
more than twice as large in 1987 as in 1981: R 56 billion as compared to R 22 billion.\textsuperscript{12}

Collection of increased taxes implies burdening wage earners with an ever greater part of the state budget. Already today, taxes on incomes as well as indirect taxes have increased their respective shares of government earnings significantly, whereas the old traditional source of government revenue—gold mining—has reduced its share, from 14\% to 9\% (1981/82–1986/87). During the same period, sales taxes almost doubled their share of government revenue, from 14\% to 26\%. The apartheid regime plans to advance further in this “regressive” direction, placing the burden on the wage earners through indirect taxes instead of increasing the tax on business profits.\textsuperscript{13}

To get out of this financial fix, the government has also initiated a process of privatization of state enterprises which, it is hoped, will reduce the demand for state finance.\textsuperscript{14}

However, this effort to limit the state’s role will certainly be contradicted by the resistance that will be created when the financial burden is increasingly being shifted onto the poorer strata of the population through a more “regressive” tax system. To contain this, increased government spending will be needed, either in the form of strengthening the repressive apparatus or in various “social” programmes.

\textit{The dilemma of the apartheid regime}

Let us pause for a moment to consider the dilemma of the apartheid regime. Already today, with only weak and limited sanctions being applied in a non-mandatory and non-comprehensive manner, the economy appears to be in a rather shaky and contradictory position. Any “solution” which may lead the economy out of its present predicament would either imply increased borrowing on the world market, which is unlikely and which furthermore would sharpen the foreign exchange problem, or be financed by increased taxation which would hit the poorer sections of the population, including whites, thus increasing hardship as well as political resistance. Consequently, it would lead to further public spending on “social” programmes and/or on the repressive apparatus (the well-known carrot and stick policy).

The regime’s predicament becomes quite evident when looking at South Africa’s military spending. During the 1980s, the military budget has more than quadrupled, and in 1988/89 it is set at R 8 billion, or 15\% of the total government budget. Sometimes, in an anti-apartheid context, to the military budget is added something called “apartheid-related expenses”—spendings to keep the “homelands” and black ghettos operational. In this way the total “apartheid share” of the budget would rise to perhaps 30\%.\textsuperscript{15} In principle, these spendings could be diverted to productive purposes. In practice, however, they constitute
the guarantee for continued apartheid power, in the Southern African region as well as inside South Africa itself. And in a post-apartheid perspective, i.e. after democracy has been achieved, spendings will need to be greatly expanded in order to begin to make up for the social injustices and to create employment and housing in the areas of South Africa which for so long have been systematically laid barren by the apartheid regime.

Similarly, South Africa’s basic employment difficulty is not easily overcome. Even the most optimistic forecasts—such as an annual net inflow of capital in the order of R 6 billion—would only lead to an average GDP growth of 2.4% (1987–1992), far below the 5% deemed necessary to absorb the additions to the labour force.

In reality capital outflows—not inflows—are on the agenda. Assuming an annual net outflow of R 6 billion—which actually was less than short and long term capital outflows in 1985 as well as in 1986—would give an average GDP growth rate of 0.3% (1987–1992). Sanctions would only aggravate this problem. Based on varying assumptions, a reduction in export earnings of 23% would lead to a decrease in GDP of 3.5–7% in 1987–1992.16

In sum, then, already at the present low level of sanctions, the South African economy is in an extremely difficult and contradictory position.

This situation has partly been created by the imposition of sanctions. The continous efforts of South Africa to evade these sanctions are slowly eroding the economic basis of the regime. Very conservative estimates of what sanctions are costing South Africa already indicate a total loss of at least USD 3 billion annually—in foreign exchange. The actual costs may be twice as high, but for the sake of argument we prefer to be on the safe side.17 These costs are composed of:

* USD 1 billion to cut through the oil blockade;

* USD 1 billion to pay for weapons and military equipment in violation of the UN Security Council resolution of 1977;

* USD 1 billion to sell at a discount and buy at a premium in various sanctions busting operations.

Although these USD 3 billion (approximately R 6 billion) in no way constitute enough of a burden to bring the apartheid regime down, they do exert considerable pressure on the South African economy by withholding important resources that might contribute to solving some of the basic difficulties: high unemployment, falling investment rates, unfavourable foreign debt composition, and increasing regressive taxation.

In this situation of structural economic imbalance, even quite limited measures may turn out to have considerable repercussions. For in-
stance, gold is normally considered a major weapon in the armory of the apartheid state. During the 1980s, gold sales accounted for 34–45% of total South African exports of goods and services. Furthermore, it is normally assumed that increased political turmoil in South Africa would immediately force gold prices up, thus bolstering the apartheid state even more and supplying it with precisely the resources it would need to endure whatever pressures would be applied against it. However, there are several factors that influence the gold price, including the USD exchange rate and the level of the interest rates in the US and other major western countries.

Still, the vulnerability is there. A decrease in the price of gold—say by USD 50 per ounce—would have the same impact as any one of the above-mentioned apartheid costs of USD 1 billion. It is perfectly within the realm of the power of the United States alone to cause such a decline in the price of gold, should it desire to apply such sanctions against South Africa.

It is in this perspective that we believe it reasonable to claim that sanctions do “work”: they contribute significantly to reducing the options of the apartheid regime and push it into a situation where it simply cannot do what is needed: create employment, pay its debts, maintain apartheid rule, destabilize the region, and keep up the living standards of the white population. In essence, sanctions block the prospects of a viable capitalist cum apartheid road, and restricts the regime’s possibility to foster a black middle class, should such an option be seriously attempted.

Notes

5. SARB, op cit, p. 3.
10. SARB, op.cit., Table S-78.


18. Ibid.

5. REPERCUSSIONS ON NEIGHBOURING STATES

"The costs of sanctions are likely to be heaviest for the 'front line' states bordering South Africa", Merle Lipton claims.1 This kind of argument is often repeated to show that the neighbouring states do not really want sanctions, since they know that they themselves will be the first to suffer.

As a case in point, Zimbabwe's "ambiguous" stand during the non-aligned summit conference in Harare 1986 is brought forward: Zimbabwe was negotiating a new trade agreement with South Africa while arguing in favour of sanctions from the non-aligned member states. The existence of the agreement was made public by South Africa during the conference in order to embarrass the Zimbabwean government.

But this "ambiguity" is hardly surprising: it would be foolish of the front line states to be the first to apply comprehensive sanctions, especially in the absence of a UN Security Council decision on mandatory sanctions. The SADCC states are the ones that depend most on South Africa, whereas sanctions imposed by them alone probably would not greatly change South Africa's room for manoeuvre.

In addition, the Mozambican experience of adhering to the Security Council's decision on mandatory sanctions against Rhodesia has not gone unnoticed: the 1976 border closure and subsequent Rhodesian retaliation is estimated to have cost Mozambique USD 550 million. Of this sum, only half was compensated for by an inflow of development aid.2

Today, it is South Africa which is imposing sanctions on her neighbours in the form of economic and military destabilization and aggression. The total cost of war and of foregone economic growth has been estimated to be USD 13 billion for 1980–1984. This exceeds the total of all foreign loans and grants to the SADCC countries during the same period; it is more than one-third of their total export earnings and 10% of their combined GDP. Furthermore, the annual costs these countries have had to endure are estimated to have risen from USD 1 billion in 1980 to USD 4 billion in 1985.3

The question to ask, therefore, is not if South Africa will make her neighbours bear the costs of sanctions, but rather whether the SADCC states will suffer more or less than today from the imposition of sanctions against South Africa.4

In this perspective, an evaluation of the impact of sanctions on South Africa's neighbours must take into account how sanctions would affect the present pattern of destabilization and dependence, as well as the likely future policy to be adopted by the apartheid regime in relation to the SADCC states. To make speculation easier, we will assume throughout this chapter that the SADCC states themselves will not levy sanctions against South Africa (basing our assumption on the
hypothesis that the UN Security Council will not decide upon mandatory and comprehensive sanctions). Therefore, the neighbouring states are seen as being available for increased economic intercourse with South Africa, much along the lines of the economic aspects of the Nkomati agreement concluded in 1984 between Mozambique and South Africa.

War

South Africa’s war against its neighbours—especially against Angola and Mozambique—is likely to change in the direction of reduced direct military involvement. The increasing pressure on the economy brought about by sanctions may lead to a reconsideration of South African military strategy in Angola (and perhaps in Namibia).

However, the surrogate forces—UNITA and MNR—as well as the recurrent sabotage and terror commando attacks by South African armed forces against the neighbouring states are likely to continue as an inexpensive way to keep the region under constant pressure. Still, and especially as far as Angola is concerned, sanctions are likely to improve the military situation. This conclusion is reinforced by the fact that the South African budget is being increasingly strained while domestic needs for social control and suppression are likely to increase as sanctions further reduce economic growth.

Also, the recent South African military debacle in Angola should be seen in the light of the arms embargo which has limited South Africa’s access to the most modern electronic military devices, thereby bereaving it of the means it would have needed to beat the joint Angolan—Cuban defence.

Migrant labour

Official labour migration between SADCC countries and South Africa totalled approximately 280,000 in 1984, half of which came from Lesotho. The overwhelming majority (80%) of these workers are employed in the South African mining industry. The volume of clandestine migration is, of course, unknown, but estimates of the total number of migrant labourers run from 1.2 to 1.5 million.

The labour migration relationship obviously works both ways: South Africa is dependent upon the migrants to fulfill essential economic functions whereas some SADCC countries obtain an important share of their foreign exchange earnings from migrants’ remittances. This is especially so for Lesotho, where 70% of that country’s imports in 1984 were financed through migrants’ remittances, and for Mozambique,
where remittances equalled 63% of the very low value of goods exported in 1986.\(^7\)

It is likely that sanctions would lead South Africa to reduce dependence upon migrant labour, and this for two reasons: partly because wage remittances constitute a drain on foreign exchange, and more importantly, because the internal unemployment problem will exacerbate the need to find employment for ever increasing numbers of South Africans.

As far as mining is concerned, a trend towards a reduced role for migrant labour has been under way since 1973—when migrants accounted for 80% of the mine labour force—to today when they constitute 40% of the total work force.\(^8\)

Consequently, sanctions may induce a partial transfer of the employment problem to neighbouring states, especially to Lesotho. In a country such as Mozambique, returning migrants may further aggravate a number of difficulties, ranging from urban unemployment to a reduced capacity of the peasant economy to reproduce itself.

**Transport**

The South African war against Angola and Mozambique has had as its prime target the immobilization of the railways linking the Southern African hinterland to the sea. In this, South Africa has been devastatingly successful, forcing SADCC countries in the mid-1980s to rely for 60–90% of their transport needs on the South African transport network (excluding Angola, Mozambique and Tanzania which do not depend on South Africa, but also leaving out Lesotho which is totally surrounded by South Africa and is thus 100% dependent).\(^9\)

Transport thus constitutes a major political and economic weapon; a weapon which South Africa has been prone to take advantage of as witnessed by Botswana and Zimbabwe (and, incidentally, by the Smith regime) when South Africa repeatedly delayed and upheld the transport of essential goods such as oil in order to promote its own political objectives.

Consequently, South Africa is likely to wish to maintain the Angolan and Mozambican transport systems inoperational. In Angola as well as in Mozambique, this objective may be reached through surrogate forces which can keep the railways under siege. However, the situation is contradictory, as South Africa itself needs to keep transport routes open for sanction busting operations. Hence it is likely that e.g. the Maputo line will be kept operational in order for South Africa to be able to trade, directly or through Swaziland.
Trade

Trade between SADCC and South Africa plays a much more important role than its share of South African exports—10% in 1984—would indicate. The reason is simply that the South African trade surplus with this region—USD 1.3 billion in 1984—accounted for as much as 44% of South Africa’s entire trade surplus. This significance is further reinforced by the fact that SADCC purchased 20% of South Africa’s non-gold exports, which means that the region is important as a market for South African manufactures.10

For these reasons, the South African regime might be reluctant to apply counter-sanctions which would destroy its markets, as has been argued by e.g. Moorsom.11 Rather, it seems probable that the SADCC region will become more important as sanctions begin to bite and as South Africa’s current major markets grow increasingly inaccessible.

In addition, South Africa will need several outlets in the region as bases from where to mount sanctions busting operations. Without assuming that such activities be condoned by or organized by individual SADCC governments, operations are likely to be set up in several SADCC countries in order to disguise the origin of goods exported and the destination of various imports. Such organisations are already operational, supported by the South African Secretariat for Unconventional Trade.12

However, from the point of view of the neighbouring states, it is likely that the South African crisis will lead to a reduced level of imports of goods and services from the region. South Africa is an important market for several SADCC states, especially so for Zimbabwe, Swaziland and Lesotho. Hence, negative repercussions on the neighbouring states are likely to follow, not only as a result of intentional policy, but simply because economic problems will force a reduced level of imports (disregarding covert trade operations for the time being).

In sum, it seems to us that South Africa will uphold and in some cases increase its overall pressure on neighbouring states. In this sense, “counter sanctions” by South Africa provide a strong argument in favour of the anti-sanctions position. Still it may well be that the apartheid regime will not apply more force than today—except in the case of migrant workers—unless the SADCC states themselves cut economic links and join the blockade.

Should the international community consider such a development a priority, firm commitments to compensate the SADCC countries for the losses that they will suffer as a consequence of South African retaliation as well as from lost business must be extended. Otherwise, the price they would have to pay in a confrontation with South Africa is likely to be far too high for them to endure.
There are also important mitigating forces. One of them is the fact that increasing sanctions against South Africa will reinforce South Africa's dependence upon the SADCC states as long as they do not apply sanctions. Therefore, it seems likely that South Africa will apply a more differentiated policy against its neighbours than hitherto and that in the areas of conventional warfare, trade, and transports the frontline states may actually benefit from sanctions applied by others against South Africa.

There is more at stake than just illegal or covert trade operations. The modified strategy of transnational capital in South Africa may result in a partial compensatory flow of investments to some of the SADCC states, as already has been examplified by Coca-Cola moving its syrup plant to Swaziland and Colgate Palmolive investing in a packaging plant in Botswana. In this way, the transnational firms safeguard their continuing presence in the region as a whole, by supplying the South African market from neighbouring countries. Obviously, this contains a strong element of sanctions busting or evasion; but it also implies the strengthening of the economic position of the SADCC states vis-à-vis South Africa, a trend, the real importance of which may only become visible in a post-apartheid perspective.

The withdrawal of transnational firms from South Africa will be discussed in the following section, and we will limit the discussion to the impact of disinvestment on the South African economy.

Notes

1. Lipton, op.cit., p. 51.
3. Hardy, op.cit., p. 45.
4. This has been pointed out by scholars and leading politicians from the Frontline states. Hanlon, for instance quotes the SADCC chairman, Botswana vice-president Peter Mmusi, at the SADCC meeting 1986; "When we join the campaign for sanctions, we know they will impose hardships on us. We accept such hardship, as a woman accepts the pain of labour, in the belief that it will bring forth new hope." (Hanlon & Omond, op. cit. p. 263).
9. Hardy, op.cit., p. 11.
6. WITHDRAWAL AND DISINVESTMENT

In 1983 the South African government eased foreign exchange restrictions and immediately an outflow of capital resulted as some transnational firms sold their South African subsidiaries and exported the proceeds. This withdrawal from South Africa gained new momentum following the domestic upheavals beginning in 1984. In 1985 the "financial" Rand was reintroduced in order to stem the tide. This financial Rand has had an approximate value of between half and two-thirds of the commercial Rand.¹

The reintroduction of restrictive measures, such as the financial Rand, aimed at disfavouring firms wanting to leave the country. But they did not discourage other forms of money transfers, such as the payment of dividends, licence and franchise fees, which have continued at the rate of the commercial rand.

By the end of 1986, approximately 1 000 transnational corporations were operating in South Africa. Of this total, 360 (36%) had British parent firms, whereas 352 (35%) had their headquarters in the United States.²

This dominating position for British and US capital has lead the anti-apartheid movements to concentrate their attention on these firms in order to effect a major impact on the South African economy through withdrawals. From the beginning of 1985 to March 1988, as many as 152 US and 61 UK firms have left South Africa (see Table).

Registered withdrawals from South Africa

<table>
<thead>
<tr>
<th>Year</th>
<th>US</th>
<th>UK</th>
</tr>
</thead>
<tbody>
<tr>
<td>1985</td>
<td>40</td>
<td>6</td>
</tr>
<tr>
<td>1986</td>
<td>50</td>
<td>14</td>
</tr>
<tr>
<td>1987</td>
<td>54</td>
<td>9</td>
</tr>
<tr>
<td>1988 (Jan–March)</td>
<td>2</td>
<td>8</td>
</tr>
<tr>
<td>Total</td>
<td>152</td>
<td>61</td>
</tr>
</tbody>
</table>


"Withdrawal" by the foreign owner from South Africa normally does not imply a cessation of the activities of the firm concerned. Of the firms listed in the table, only about 10% actually closed down their installations. Almost 20% of the firms were sold to the local management, whereas as many as almost 50% were sold to South African firms, primarily large corporations. The remaining 20% have either been taken over by other foreign firms or in a few cases by the former employees.³

"Withdrawing" thus does not quite mean what the term may lead us to believe. Most of the firms selling their assets in South Africa, si-
multaneously guarantee that their products will continue to be available on the South African market through a series of devices ranging from production on licence, franchise agreements, supply and service contracts, etc. In some cases, normally when the subsidiaries are sold to local management, a buy-back clause is incorporated in the deal, giving the parent company the right to re-acquire the firm if it wants to.

This continuing presence in South Africa is sometimes used to argue that the withdrawal is totally without impact. However, it may well be that the host of contracts and agreements between the former parent and the now "independent" South African firm will weigh heavier on the South African balance of payments than the former system when profit remittances were the major outflow. As the introduction of the financial Rand reduces the value of the export of capital from the sales of equity by the transnational firms, they have in many cases resorted to selling their assets at prices far below the market value. However, it is reasonable to assume that the foreign firms intend to win back what they lost by transfer pricing practices, licence fees, the transfer of technology and other devices which so far permit transfer at the normal rand rate. Possibly, such a development may force the South African government to extend compulsion to trade at the rate of the financial Rand to new areas, which undoubtedly will harm what is normally called "business confidence".

Why are firms withdrawing? Is it the "hassle factor"; the domestic problems caused by firms' exposure in South Africa, ever more questioned by public opinion the harsher and more blatant that apartheid oppression becomes? As we have argued above, this certainly is part of the picture. But there are also solid economic motives for many a transnational company to dissociate itself from South Africa. Banks and insurance companies have been particularly sensitive to clients' boycotts, but any company catering directly to consumers is liable to be hurt should the anti-apartheid movement decide to boycott its products in order to force it to withdraw from South Africa.

Also in line with the economic argument for withdrawal are the declining profits. According to the British Anti-Apartheid Movement, return on invested foreign capital has dwindled from 15% in 1967 to "virtually nothing" by 1984.4 Lipton writes that US companies that year on the average lost 9% of their book value.5 However, it could be argued that the average level of profits for the large corporations increased again in 1986 and that it, therefore, seems strange if the foreign companies muddled through a long recession period only to sell out when profits were rising again. A possible explanation to this is that the firms react to a negative long term perspective and/or that they have found methods to continue their activities with a lower profile.

It thus seems reasonable to assume that the wave of withdrawals and disinvestment which gained momentum in 1985 originated in a
combination of factors. In general, the outcome has not been complete withdrawal, rather transformation of the way in which international capital can reap profits in South Africa: profits without exposure.

To designate this new phase, from equity to non-equity relations, several observers speak of the "Japanization" of transnational capital in South Africa. Already in the mid-sixties Japanese law prohibited direct investments in South Africa, and Japanese penetration of the South African market has, therefore, basically been achieved through exports, licensing and other technical agreements. But it is not only Japan: at the beginning of the 1980s, a world-wide phenomenon of changing direct investment patterns was noted, inter alia by the OECD Development Centre which initiated a research programme on this topic. As part of a global strategy, many transnational firms reduced exposure, either by becoming minority partners, thus trying to eliminate the political risk of nationalization and the like, or by reaping profits through licencing or the transfer of technology.

Hence, recent developments in South Africa follow this pattern, the difference being that the objective of the strategy is to reduce exposure in the parent firms' home country rather than in a potentially hostile host country.

Still another important issue is the long-term effects of disinvestment on the access to modern technology. Such access is a prerequisite for continuing domestic economic expansion including military capability. Dependence on outside technology is basic, whatever the regime says to the contrary. Changes from equity to non-equity relations will in the short run often include provision of technology via licensing and other agreements, but in the long run it is very uncertain if, for instance, IBM is prepared to release its latest technology to a company which it does not completely control.

As we have said, the fact that withdrawal in many cases is nothing but a change of presence, could be interpreted to mean that it is of no real significance. However, apart from the factors considered earlier, there is a related political consequence, formulated in the following manner by the South African Minister of Finance, Barend du Plessis, when he expressed his fears that disinvesting and withdrawing foreign firms were losing their interest in opposing sanctions against South Africa:

A hard-nosed attitude to disinvestment is not a very clever attitude [...] 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.

As shown earlier, only a minority of the installations which are being deserted by their foreign owners are actually closed down. Picking up the lion's share after the transnationals are South Africa's major con-
glomerates. In this way, Anglo American, Sanlam, SA Mutual, and Rembrandt have increased their combined control over the shares traded at the Johannesburg Stock Exchange, from 70% to 83% during 1983–1987. Anglo American alone has increased its share from 54 to 60%.7

Very little of the spoils is being picked up by black capital. Among the few exemptions to the general rule, Ford and Pepsi should be noted: Ford for handing over 24% of the shares to an employee trust, and Pepsi for transferring its installations to the Soweto Investments Trust Co., an organization set up with the assistance of the Anglo-controlled First National Bank, which also happens to be Pepsi’s largest creditor.8

Thus, so far, the withdrawal of foreign capital seems to have given new impetus to the monopolization of the South African economy without fuelling the development of any intermediate, black bourgeois strata. This is not, however, the reason why black trade unions have criticized some withdrawals of transnational firms. Although not opposed to sanctions or withdrawals as such, various unions have opposed the way in which withdrawals have been carried out. In some cases, the unions have found themselves worse off than before, with former “codes of conduct” as well as pension and wage agreements now being disregarded by the new South African owners. Therefore, unions are demanding participation in the withdrawal procedures in order to protect their members’ interests.

Another important aspect of selling to South African corporations is that they use their surplus to buy already existing installations, rather than for making new investments. This reduces the total level of investment, which will have negative repercussions on future economic growth.

Now, what about the impact of withdrawal on reform in South Africa? Will the Boers when, deserted by international firms, retreat into their laager? Increased monopolization may actually operate in exactly the opposite direction: should monopoly be as liberal as is often claimed, its increased power ought to strengthen the forces working for a liberal, capitalistic development of South Africa. In other words, the growing domination of the largest monopolies might produce a tendency which is the antithesis of what sanctions aggressors such as Lipton normally argue would inevitably follow upon a massive withdrawal of foreign capital: more reform rather than less as monopoly capital gains weight.

On the other hand, should big capital’s liberal fame be undeserved—a possibility which we considered in passing earlier—the growing monopolization of the economy may well reinforce the symbiosis between the dominating capital groups and the apartheid regime.
Obviously, this is an area for future research (or perhaps for more speculation). Suffice it to note here, that it is at least conceivable that the increased strength of the major capitalist groups of South Africa— at a time when even the state itself is selling out its assets—would reinforce the objective necessity to do away with apartheid in order to make room for democratic capitalism, including a growing market and a black middle class, in order to contain the black revolutionary movement.

Still, two factors seem to counteract this possibility of sanctions increasing the likelihood of internal reform. One is that so little room has been made available for the black bourgeoisie; and the other is that the major domestic firms, especially Anglo American, increase their direct investments outside South Africa in what appear to be preparations for the survival of capital internationally, should the South African economy seriously suffer in an ever increasing internal conflict.

Notes

2. Hanlon & Omond, op.cit, p. 286. Other sources give slightly different figures, probably due to different periodisation.
7. Lipton, op.cit., p. 92.
7. CONCLUDING REMARKS

We have portrayed the sanctions issue as a dilemma, not only because the impact of sanctions operate in different directions, some of which may be considered to substantiate the claims made by sanctions antagonists that sanctions are counter-productive as they hurt the poorer black population by retarding the growth of the economy. It is a dilemma also because sanctions against South Africa are likely to lead to counter-sanctions against the front line states at the same time as the net impact here is tempered by increasing South African dependence on her neighbours. Nevertheless, we consider economic sanctions to be the most potent instrument that can be applied from the outside in order to weaken the apartheid regime.

As is clear from our brief outline, we take as the point of departure for our discussion a scenario, where partial sanctions against South Africa will continue and possibly also be expanded. We thus agree with Lipton and others when they assume that under present circumstances the major Western powers will not be prepared to introduce comprehensive, mandatory sanctions.

One of our main conclusions based on these modest assumptions is that all partial sanctions are important, not in themselves, but they have value as part of a cumulative pressure which reduces the scope of economic manoeuvre and limits the number of alternatives to the apartheid regime. From there, it follows that the more and wider the partial sanctions, the harder will be the aggregate pressure and the more limited the scope for an intransigent apartheid regime to retain its strength.

Partial sanctions as such can be dismissed by sanctions antagonists as “not working”. And rightly so, as long as they manage to keep the discussion at the level of individual sanctions. What matters, and this seems to be clear to both the apartheid regime and South African capital, is the cumulative effect of those partial sanctions. One important reason is the structural weakness in the South African economy, which will make it impossible for the regime to continue to deliver the apartheid system, sufficient economic growth and continued privileges for the whites.

The “laager mentality” of the boers, so often referred to by sanction antagonists, may increase when the economy starts cracking, not only, but partly, because of sanctions. But an equally plausible case to the contrary could be argued: increased pressure will split the white groups, and so weaken the political backing of the apartheid system. An example of this was noted in 1985, when South African capital grew annoyed with the regime’s unrepentant attitude, manifested in P W Botha’s “Rubicon speech”, which resulted in an acute financial crisis when US bankers refused to roll over outstanding short-term debts.
This thesis is especially interesting when applied to major capital interests. The empirically shown increased concentration of domestic capital following the sale of equity by the transnationals will increase the test of liberal capitalism as an agent for the abolition of apartheid. We suggest that this issue needs to be looked into more profoundly, against the historical experiences of both South Africa and Rhodesia.

Implicit to our conclusion that sanctions do work, lies the apprehension that low or negative economic growth will hurt many people, primarily by increasing unemployment. Likewise low economic growth in South Africa will create economic difficulties for the neighbouring states, sanctions or no sanctions.

Bearing the cumulative perspective of the effects of sanctions in mind, it seems worthwhile to speculate about the real costs of sanctions busting. Such costs may, in certain cases from a national cost-benefit point of view, be as high as if the sanctions had not been diverted. The reason that sanctions busting still takes place in such cases is that the costs are paid by groups other than those that benefit and also that the rewards to the "busters" are normally very high. This issue—the scope and costs of sanctions busting—also needs further study. At present the figures used are extremely rough and it is uncertain what costs are included in the estimates.

Another field for further research is the effect on the South African economy of the wave of disinvestment by transnational companies, or rather the change from equity to non-equity relations. Especially interesting are issues such as the effects on domestic capital concentration, total capital stock, employment and access to modern technology.

Finally we would suggest a fourth area for future study: How to improve the possibilities of the frontline states to adapt to reduced migrant labour in the South African mines. The share of migrant workers in the mines has decreased since the beginning of the 1970s. This trend is likely to continue, irrespective of whether or not the regime implements its occasionally published threat to stop recruitment in the neighbouring states. The trend would not necessarily stop with a majority-ruled South Africa, taking the structural employment situation into consideration. The most vulnerable country here is of course Lesotho, but for Mozambique this will also create serious problems. This area has been quite extensively researched; what should be on the agenda is to identify practical measures in terms of the generation of employment and the adaptation of the peasant economy to new realities.
References

Our starting point when writing this paper were five recent works containing more or less comprehensive discussions on the effects of economic sanctions against South Africa. They are:


The other works referred to have provided us with information or options regarding specific issues:

South African Reserve Bank (SARB): Quarterly Bulletins.
**SUMMARY OF WESTERN ECONOMIC SANCTIONS**

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<tr>
<th>New Investments</th>
<th>Loans to Companies</th>
<th>Loans to SAGovt</th>
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<th>Credits &amp; Promotion</th>
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For more documentation, apply to the authorities/parliaments, or to the AWEPA office. Questions etc. from this chart are allowed, if copies are sent to AWEPA office.
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<th>Ban</th>
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<th>Sale ban to army, police</th>
<th>To be suspended</th>
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_EU Office: P.O. Box 402, 2501 CK The Hague, Netherlands, Phone (020) 26.66.39 or (070) 61.49.11, Telex 30236_