

DISINVESTMENT: THE MYTHS EXAMINED

Professors Karl Magyar and Len Konar

The disinvestment debate has gained considerable momentum and prominence during the past year. South Africa's perceived intransigence on internal reform aimed at the elimination of apartheid has been met by demands overseas for forceful action to pressurise Pretoria to undertake negotiations with blacks for a new non-discriminatory order. Short of a declaration of war or a policy of total isolation, the clamour for disinvestment expresses the belief that Pretoria requires direct pressure to initiate massive reforms; mere moral posturing or political discussions have accomplished little beyond buying time which enables the privileged white sector to entrench itself further while dividing the blacks to weaken their collective impact.

It has become evident overseas that more than mere talk is needed. Punitive economic sanctions must be invoked. The range of options is substantial which allows overseas governments considerable leeway in increasing pressure on South Africa until it hurts. Public and private efforts include divestment of stocks in companies doing business with South Africa, outlawing any new investments to be made in South Africa, withdrawal of, or limiting the expansion of present investments in South Africa, cessation of bank loans, prevention of technology flows, embargoes on key strategic goods and anything that may help the police or military control the blacks more effectively, banning the sale of Krugerrands, preventing SAA flights from landing in the US, and ultimately imposition of a total trade embargo on South Africa.

Somewhere along the way of escalating such pressures, South Africa is liable to succumb and to respond with massive changes – which however have not been identified in detail. Is South Africa to initiate negotiations with blacks – if so, with which blacks? Or move to share power – if so, to what extent? Such questions have not been articulated. But *something* substantial must be done.

The major thrust of overseas efforts to pressurise South Africa at this time concerns divestment, disinvestment, and other relatively low-level economic sanctions. This has naturally evoked substantial debate on the effectiveness and appropriateness of such actions. Are they sufficient? Will they accomplish their objective? Will they not hurt the intended beneficiaries more than the privileged whites? Will Pretoria be able to counter the sanctions? The debate is active because the issue at hand

is momentous and the tactics and strategies of those wishing to invoke economic sanctions cannot promise to be effective. In fact, the entire debate is fraught with uncertainties.

Those arguing for punitive measures may be making excessively facile assumptions about the ability of sanctions to achieve moderate objectives peacefully. Damage done, in turn, to American and European economies is all but discounted. On the other side, South Africa's defensive tactics have failed to impress the West that South Africa represents an important bulwark against a world-wide communist onslaught or that vital strategic minerals may not be available in the event of a takeover by a radical black regime. Recent efforts have instead focused on proving that a damaged economy will primarily hurt the majority black population as well as the precarious economic positions of South Africa's fragile neighbours. Arguments on both sides are very persuasive but also surprisingly inconclusive. Notable in the defence of continued investments is the barrage of persuasive reasons for abandoning the disinvestment campaign. However, nothing is proposed to eliminate apartheid policies which have given rise to the debate in the first place. Should disinvestment be decisively proven to be an inappropriate measure, the pro-investors will still be left without any motivation to eliminate the offending social order.

Many protagonists have been involved in this debate. Politicians, church leaders and groups, student and civic organisations, analysts, and corporate officials are all polarised on this issue, with few advocating a compromise position. One of the most prominent efforts to review the disinvestment debate has been produced in a special edition of *Leadership* (June 1985). The debate, being political, emotional and moral in nature, has yielded a number of arguments in defence of one or other position. Common to many of these arguments is the tendency to make assumptions about the logic of the argument, the relevant components of the argument, or the data base of the economic dimension of such arguments. These need closer examination. Many arguments may well be myths or they may be outright fallacies.

The following represent the most prominent arguments in the debate and bear closer scrutiny. While it is not purported that our interpretations are

SANCTIONS



necessarily correct, we expect to demonstrate that at least the "myths" require closer examination. For the disinvestment debate to be invoked in the process of formulating policies towards South Africa, we ought to expect that the arguments are based on valid grounds.

The proper focus of overseas interests should be the establishment of a substantial black middle class in order to stabilise South Africa's restless black community.

Wishful thinking. Firstly, the development of a black middle class will lead inexorably to a demand for greater political power and entry into the upper-class ranks. Historically, the weakest challenges to the prevailing political system come from the very poor: they are too hungry and too poor to fight. Change has always been instigated by the enlightened members of the aspiring middle classes.

Secondly, given the present economic and political systems in South Africa, the establishment of a sufficiently large black middle class to mollify that large racial group is precluded by the lack of financial and managerial resources. The whites have attained a relatively comfortable life-style based on wealth derived from the land, and from basic low-technology and labour-intensive industries. Compared to prevailing standards of the OECD, South Africa's is a very dated economic model today.

The formation of a large black middle class would require the massive creation of jobs; education and training of supervisory and managerial talent; a major affirmative-action programme; huge investments. All this would require a drastic alteration of the entire social fabric and unprecedented foreign investments.

Does this preclude prospects of a black middle class and a peaceful future? No. Given a steadily expanding black population and the increasing vulnerability of the economy, South Africa will simply not have the resources with which to maintain elitist domination by whites. The present system guarantees little beyond the maintenance of the existing fragile relations between the increasingly embattled minority and the deprived black majority. The State today cannot meet the aspirations and rising expectations of its numerous Third World citizens.

Blacks in South Africa are ruled, but they are not governed.

The South African Government must dismantle its discriminatory labour practices in order to allow blacks to compete unhindered in the free market system.

Good in principle but wholly inadequate. Firstly, the elimination of discriminatory labour practices will be insufficient if other social regulations such as the Group Areas Act and Influx Control remain. Blacks working in white areas spend an enormous amount of

time travelling between their homes and jobs every day. This will barely give them an equal chance to compete in the financial centres of the country.

Secondly, with inferior education, housing and health facilities, they are poorly equipped to compete in the market place. What is needed is an affirmative action programme to positively develop their basic capabilities which would allow them to compete *de facto* and not only *de jure*.

Thirdly, blacks lack the resource base of land. Present-day white economic wealth is based on the history of agriculture and mining which produced the initial capital for investing in development and modernisation. It is only the white sector which is in a position to move beyond land-based wealth and to capitalise on the service sector – the mark of a truly modern and dynamic economy.

Thus considerable structural change is needed; easing restrictive labour practices would be merely the beginning. Even if equal land resources were made available to blacks, much of its wealth has been depleted. Given the enormous needs of the large black community, unless there is a massive transfer of capital to them, the standard free-enterprise model will be of little significance to this impoverished majority sector. Addressing their needs will require centralised planning for their competitive abilities to realise success in a system where the economic elite has long been entrenched.

Considering the extent to which the present white-led economy is controlled by the State, talk of introducing the black majority into a free-enterprise system is tantamount to postulating yet another period of continued white economic elitism. Free enterprise is an attractive model if scrupulously practised, but the prospects of developing this for the black sector have not yet been demonstrated.

Simply put, the blacks will not be able to develop capitalism without capital.

Economic boycotts and sanctions are the only way to force South Africa to abandon its apartheid policy.

Not entirely correct. Firstly, foreign protestors are underestimating the effectiveness of internal pressures stemming from a rapidly burgeoning black population and the increasingly limited availability of resources required for absorbing them into the economy. In fact such internal pressures may well force fundamental changes long before the effects of external sanctions will. Sharpeville and Soweto were inspired by almost purely internal forces.

Secondly, the use of economic sanctions to solve the political problem of apartheid may well prove to be counter-productive as it sets dangerous precedents which may be used in other problem areas of the world in the future – where the economic stakes could be much higher. Also, punitive economic sanctions may induce the desired political changes but damage the fragile economic system of South Africa.

Should we concede the need for external

SANCTIONS



pressures, it can be argued that these should be primarily political. The full array of political weapons has not yet been exploited. Besides diplomatic pressures, boycotts on sport, culture and communications can be very effective. The aim is to increase political and social isolation to the point of ostracism from the greater Western community.

But promises of rewards for compliant behaviour must also be offered. Certain measures should be requested within a realistic time frame. External pressure is effective – but its greatest impact lies in supporting internal pressure. Thus, it is likely that the disinvestment campaign will have a much greater impact on South Africa than the act of disinvestment itself.

Once blacks attain political power, they will then be able to make rapid economic strides.

Attractive but unsupportable argument. That political power guarantees economic power is not supported by the facts. There might often be a direct correlation but it is not causal.

Based on the experience of virtually all black African countries the attainment of native rule after colonialism ended resulted in the development of a very small and very prosperous black ruling elite, often the consequence of corruption and not of effort. But broadly-based massive economic development has been elusive. High population growth rates combined with reduced investment are the order of the day and this will hardly enrich the total population.

The entire disinvestment issue is promoted by frustrated members of the Democratic Party in the US to create in desperation a political issue aimed at an invincible President Reagan.

False. Anti-apartheid pressures and punitive measures pre-date President Reagan's period in office by at least two decades.

During the Sixties two major developments laid the foundations for the present resistance to South Africa's apartheid policies. First, in the Fifties America's blacks began developing a political cohesiveness during their own civil-rights campaigns. This resulted in their disruptive activities in many large American urban areas in the Sixties from which emerged "black power" ideologies and black political organisation – much more aggressive than that of the old National Association for the Advancement of Coloured People (NAACP). With South Africa, America's blacks have at last located a non-domestic issue which unites them. South Africa represents to them the bitter memories of America's own history of racial segregation and of the rather sordid history of African colonialism.

The number of American blacks equals South Africa's and America's blacks comprise the world's

wealthiest black community. In the true tradition of democratic pressure-group politics, they exert enormous pressure on the Democratic Party of which they represent over 20 per cent of the voters – enough to influence the choice of presidential nominees. These powerful influences cannot be easily dismissed, especially when added to the vast array of church, university, and private-sector opposition groups. All of these pre-date Reagan's presidency.

It should also be remembered that a number of very influential Republicans in both the House and the Senate and at the state level have come out strongly against South Africa. In December 1984, 35 Republicans in the House of Representatives wrote to South Africa's Ambassador in Washington threatening to support sanctions against South Africa. Young conservative and ambitious Republicans can hardly be expected to stake their careers on the defence of apartheid.

South Africa's resistance to external pressure for rapid change is justified in view of the prospects of a right-wing backlash.

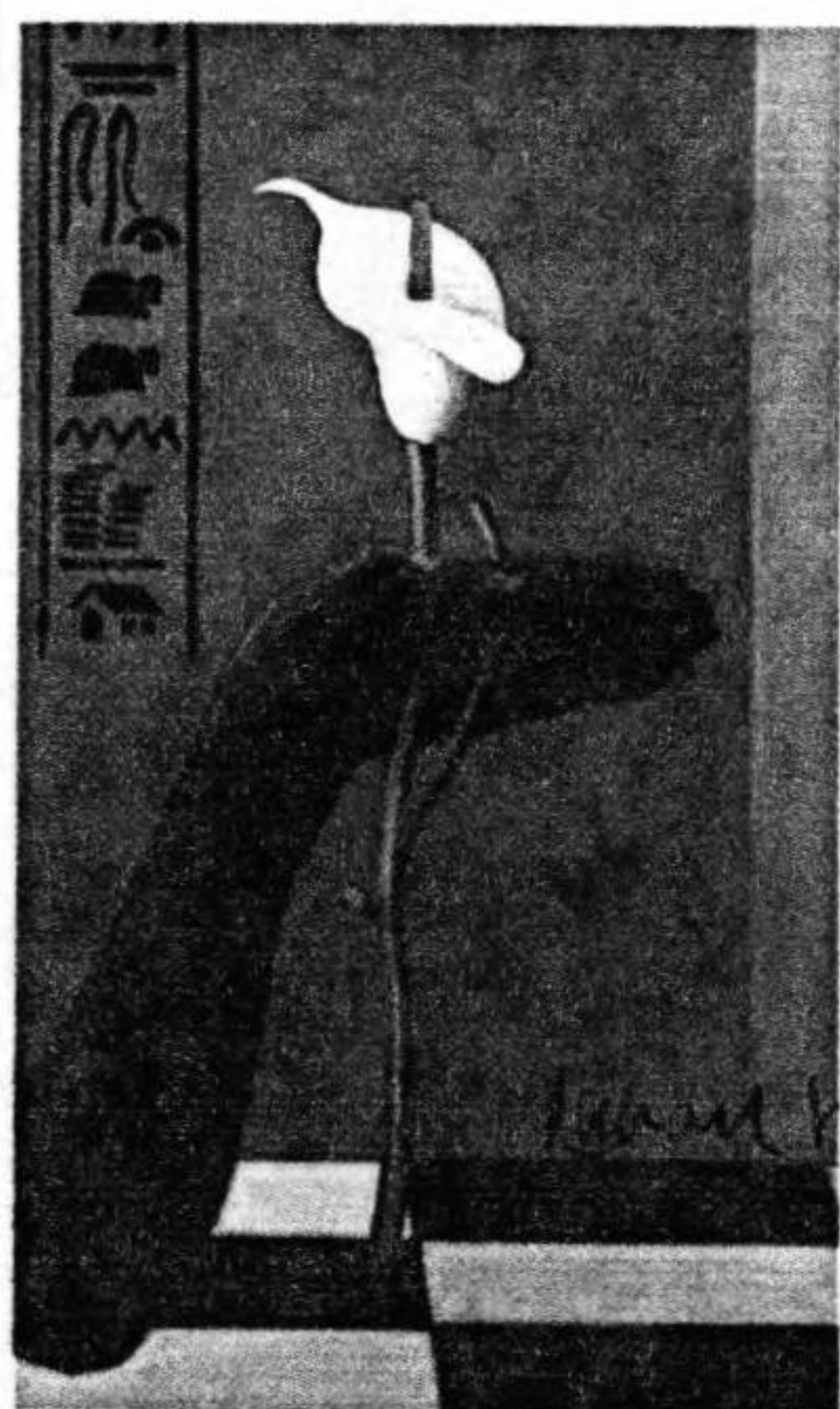
The numbers have not been examined. In Europe, the government which enjoys a clear majority is rare indeed. In South Africa in 1985, the National Party holds 128 out of 178 seats in the House of Assembly. This represents an overwhelming 72 per cent of that Parliamentary chamber.

Two observations can be made. First, any political system other than an absolutist dictatorship will experience 20 per cent of incorrigible Parliamentary seats on the far Right and another 20 per cent on the far Left. Politics concerns the appeal to the flexible 20 per cent straddling the centre who are wooed by the moderate Left or Right in search of alliance. A firm and competent statesman does not pervert the entire political system in order to placate the small extremist minority.

Further, the most basic law of politics is that no law can be promulgated which does not favour the interests of some at the expense of others. Where demands for massive reforms are encountered, they cannot be accommodated without a shift in advantage from one group to another. Failure to do so is to embark on a risky attempt to frustrate the demands of those pushing for fundamental reforms. In other words, a statesman has only two choices: manage change with the least damage being inflicted on the minorities or take responsibility for risking a conservative policy of inaction.

The second observation concerns the failure to debate publicly the logic of an unlikely but possible victory of a conservative alliance. Would this re-introduce a golden age of economic and political stability or would this polarise the politically Left, while the moderate whites flee with their capital?

Would such a rightist government have the resources for inaugurating a garrison state? Who would be left to defend it and who would manage the



decimated economy? Most likely, the new government would soon have to embark upon reforms much more far-reaching than those the present government is undertaking – but with only a fraction of remaining resources. Chaos would ensue.

The present government at least has the prospects of adding to its supporting constituency some members of the Indian, coloured and black communities. These would be rapidly lost to a conservative regime. The swing to the right is an attractive argument but not very convincing. In 1983, with 76 per cent of eligible whites voting in a referendum, the National Party's new constitutional proposal passed by 66 to 33 per cent. This suggests that the government is far too strong to be forced to cater for the threat of the far Right.

Disinvestment is primarily an American concern.

Wrong. They are, however, the leaders. Pressures for economic sanctions came from the United Nations, while precedents for the Sullivan Code came from the British, the European Economic Community and from South Africa's Urban Foundation. They were, however, pursued with little vigour.

In Europe, the Scandinavian countries were early opponents of South Africa but their established commercial commitments were very limited. The members of the European Community were publicly concerned but undertook only mild diplomatic actions until recently.

The British, who hold nearly half of the foreign investments in South Africa, which amounts to about 10 per cent of their overseas investments, have been openly against disinvestment. Other countries such as Canada and Australia have resorted to diplomatic pressures or are threatening the imposition of codes on their companies. Japan has had long-standing restrictions on investments in South Africa and will certainly not increase its presence here.

Recently, Americans have taken the lead. American Congressional pressures have escalated steadily in the House of Representatives and this has inspired recent attempts by Richard Lugar in the Senate to offer a milder version of a sanctions bill.

Public debate over the issue has seen student, church and black groups (especially Trans Africa) organise into a very visible lobby on behalf of disinvestment. Many state governments have introduced wide-ranging proposals for sanctions, though only a few have actually passed punitive measures. More effective measures are being passed by many of America's largest cities to divest from any companies doing business with South Africa.

These activities, covered very widely by the media, have generated much adverse publicity which in itself may already have done more damage than any legislation under consideration may do. Managing marginally profitable assets in South Africa under circumstances of great risk and uncer-

tainty takes a disproportionate share of managerial time. This may have kept many companies from establishing or expanding their business in South Africa.

Successful Western economic sanctions against South Africa may lead ultimately to a black majority government stopping the flow of strategic minerals to the West.

Inconceivable. At present, 85 per cent of the country's value in mineral production is exported. This includes over R6 billion rand of non-gold minerals. Earnings from all mineral exports amount to about R650 per capita of the entire population.

Theoretically, a new government embarking on a programme to address the economic needs of all members of South Africa's society might argue that, except for gold, most minerals should be retained in South Africa for its own development. It would, however, be greatly pressured to maintain the present rates of minerals exports in order to obtain substantial investment funds. A pro-Moscow political stance would hardly lessen the requirements for hard currency, and a new government will not easily be able to re-order the economy to a lesser reliance on minerals exports.

Another argument suggests that a radical or inept government would most likely increase mineral production and sales, and possibly even lower prices. This would follow naturally from the generally deteriorating economic conditions immediately after a major government turnover. Capital flight, withdrawal of foreign investments, inflation, weakening of the currency and management drain (as happened in Angola and Mozambique) would be the order of the day.

Nigeria has constantly been stepping up production and lowering the price of oil in the pursuit of export earnings. Even SWAPO has publicly conceded that it has no plans to reduce mining activities in the event of their takeover in Namibia. But all this merely suggests that for as long as the Soviet bloc does not become an alternative market for these minerals, there is little reason to fear a strategy of denying minerals to the West.

The Sullivan Code is an effective compromise between investment and disinvestment as it requires that American companies wishing to retain or to introduce investments must adhere to certain employment practices judged to be more favourable to blacks than South Africa's exploitative system.

Interesting but not without drawbacks. The dilemma is that employee codes attempt to solve wide-ranging political problems with economic solutions aimed at the very few. This will result in the creation of a small worker elite as a very expensive public relations exercise. Those artificial aspects add to production costs, and in the case of the Sullivan



principles which are to be applied to American-owned businesses, prejudice precisely those companies with enlightened employment practices that can provide jobs and economic growth.

However, if the economy is judged to be an appropriate battleground on which to resolve political problems, the Sullivan principles present an interesting challenge. As a model for enlightened labour practices and industrial relations, these principles were expected to pressure the vast majority of South African-owned companies to update their practices. To date there is little evidence that this has happened, nor is it likely that increased production costs will be offset by a commensurate increase in worker productivity. Should this not be the case, either the production of goods or the provision of jobs will suffer.

Where some flexibility for adjustment exists, is in the profit area. However, the general recessionary circumstances do not offer sufficient latitude for the redistribution of profits in view of the vast requirements to uplift the lot of the workers.

A labour code, then, is a legitimate device but is essentially political, and as such should be universalised, but this requires the fundamental restructuring of the entire socio-economic system.

THE ARGUMENTS REVIEWED

When reviewing the numerous arguments presented by both sides in the disinvestment debate, one is struck by the certainty with which the protagonists assert themselves on a matter characterised by uncertainty. The overall economic effects of the disinvestment campaign are very difficult to calculate.

We feel safe in suggesting at most, that the direct and immediate consequences of disinvestment will not be nearly as devastating as the indirect and long-range damage inflicted by the campaign itself. The uncertainty which has been introduced into the ability of the South African economy to remain competently managed is potentially far more dangerous than the mere withdrawal of overseas firms.

A broad-based review of the "myths" yields the following observations:

□ Disinvestment is debated too much within the context of the damage that may be inflicted on the economy. Whatever happened to the problem of apartheid that inspired the debate in the first place? Should the pro-investment group be able to argue successfully for continued investments, the entire question of apartheid, which is the essence of the debate, will not have been addressed.

□ The implications of the disinvestment debate will be felt beyond South Africa. The protracted debate has demonstrated the direct role of the public in the foreign policy-formulation process.

□ South Africa's gradualist approach to reform will simply not be accepted by the West as being adequate. As of 1985, the three major countries which matter the most, the United States, Great Britain and Germany, all have conservative governments, yet they are highly critical of South Africa.

Any liberal governments in these countries in the future will be much more harsh.

□ If, as is widely rumoured, P W Botha was prepared to make major concessions in his planned Durban speech in August 1985 but watered down all meaningful concessions in view of last minute Right-wing pressures, it is time that the actual numbers of the different constituencies be investigated. If this Right-wing pressure represents even half of South Africa's 4,5 million whites, the interests of this fraction must be weighed against the interests of the other 2,3 million whites, 3,4 million coloureds and Asians, and 21 million blacks.

In effect this means that the fate of South Africans is determined by less than 8 per cent of the population. Should we include another 56 million people in the greater Southern Africa region, this percentage which represents the obstacle to peaceful relations and accelerated economic progress represents 2,6 per cent of the population of the entire region. This could aptly be referred to as the "regsgevaar."

□ With or without sanctions legislation, the South African economy is presently subject to various problems (oil acquisition, enriched uranium supplies, and so on) and any escalation in its intensity will probably increase the difficulty as well as the costs in the procurement of strategic goods and services.

□ The present shortage of skilled personnel will become even more severe as many seek more peaceful and stabilised countries in which to live. The success of affirmative action programmes in filling the positions vacated cannot be confidently forecast.

These concluding observations point to two major problems highlighted by the disinvestment controversy. Firstly, South Africans attempt to separate the economic dimension of the debate from its political context, while for foreigners the problem remains apartheid. Secondly, South Africans have somewhat myopically focused their attention on the economic problems of disinvestment alone, when they should more properly look at the problems of the entire economy.

Disinvestment can only be an effective weapon against a weak and a vulnerable economy. Such an economy, anyway, would hardly be able to support a solution for the country's debilitating political situation.

Karl P Magyar is Professor of Political Science and Len Konar, Professor in the Accounting Department, both at the University of Durban-Westville.