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SOUTH AFRICA

RIOTS IN JOHANNESBURG: PROTESTS OVER RENT AND UTILITY PRICES LEFT 100 BLACKS DEAD—AND RENEWED INTERNATIONAL OUTRAGE

TSHABALALA/GAMMA-LIAISON

THE SCREWS ARE TIGHTENING ON U.S. COMPANIES

The word had been out for months. Ford's South African auto operations were on the block. But its formal announcement on Jan. 30 that it was merging its auto business with Anglo American Corp. shook the U.S. business community like a thunderclap. Although Ford's nameplate will still appear there, the biggest U.S. manufacturer in South Africa is pulling back from its long struggle to find both profits and social progress in the racially torn country.

Ford's decision only tightens the screws on the more than 300 U.S. companies in South Africa. At home, they are feeling the heat from protests in Washington and other cities, calls for disinvestment by big pension funds, churches, and universities, and fresh resolve in Congress to enact sanctions. And business in recession-plagued South Africa has rarely been worse.

Inside South Africa, political ferment has made the outlook even more uncertain. Early last month a conservative business group joined others in urging political rights for blacks and an end to the hated laws that control where they can work and live. President P. W. Botha outraged hardliners by offering a new political dialogue with blacks. But moderate Bishop Desmond M. Tutu, winner of the 1984 Nobel Peace Prize, rejected the offer. Tutu said that unless U.S. companies act by the end of 1986 to help blacks get political rights, he will for the first time endorse economic sanctions against investment in South Africa.

THE 12 LARGEST U.S. EMPLOYERS IN SOUTH AFRICA

Company	Number of workers
Coca-Cola	4,800
Ford Motor	4,600
General Motors	4,000
Mobil	3,300
USG*	2,600
Goodyear	2,600
Caltex Petroleum	2,200
Allegheny International	2,000
IBM	1,900
General Electric	850
Dresser Industries	800
Xerox	800

* Formerly U.S. Gypsum

DATA: BW, INVESTOR RESPONSIBILITY RESEARCH CENTER

One of the most progressive, highest-paying employers in South Africa, Ford Motor Co. (page 48) was also the U.S. company most beset by increasingly militant black unions. The company insisted its move was not a pullout, just rationalization. With slim profits in just two of the last five years in a crowded market, Ford will close one of its heavily unionized auto plants, eliminating 2,000 more jobs in depressed Port Elizabeth.

'THE HASSLE FACTOR.' Ford's decision to reduce its exposure and take a 40% minority position is likely to encourage followers. Says one businessman: "There are strong rumors here that it's just the first step. Other U.S. companies will do something similar." General Motors Corp. says it will stay independent. But Louis H. Wilking, managing director of General Motors South African Ltd., admits that Ford's move will be seen as disinvestment. David Willers, London director of a South African business group, blames Ford's decision on "the hassle factor." As an American Cyanamid Co. executive noted at the peak of the 1980 gold boom: "South Africa is 1%

of worldwide sales, 2% of worldwide profits, and 10% of boardroom time. At some point... it isn't worth it."

Polls show that Americans oppose closing U.S. operations in South Africa to force an end to apartheid (box). But organized pressure for disinvestment is mounting. The House of Representatives passed two bills last year, one setting minimum standards for U.S. companies in South Africa, and another banning new U.S. investment there. Sponsors Steven J. Solarz (D-N.Y.) and William H. Gray III (D-Pa.), the Budget Committee chairman, expect to do better this year. Gray's aides say economic sanctions will be "a very high priority."

Laws in 11 U.S. cities and five states require public funds to divest some or all of their stock of companies operating in South Africa. Major New York banks have seen large depositors withdrawing. Clients have told fund managers, such as Kemper International Fund, to dump the stocks of South African companies from their portfolios. Under a New York City proposal, companies with operations in South Africa would be penalized when they bid for city contracts.

Voluntary programs to raise the living standards of black South Africans, such as the Sullivan Principles, are also biting into company time and earnings. U.S. multinationals claim they have spent up to $100 million on education, health, and training since the principles were signed in 1977. But the 134 companies that have signed the code devised by Leon H. Sullivan, a minister and former General Motors Corp. board member, are chasing a moving target. They must contend not only with fast-changing politics in South Africa and in the U.S. but also with Sullivan's ever-increasing demands.

PRIORITIES. Last December, Sullivan upped the ante again. His revised code requires U.S. companies to take public, political action to encourage the abolition of apartheid, South Africa's institutionalized form of racism. That leaves the companies wedged even deeper between

BUSINESS WEEK/HARRIS POLL: FIGHT APARTHEID, BUT DON'T CLOSE UP SHOP

American corporations may be reassessing whether it's worth the trouble to do business in South Africa. But if they choose to leave, it will not be because the U.S. public demands it. By substantial margins, Americans are opposed to applying economic sanctions of any sort to South Africa in order to force it to modify or abandon apartheid.

That opposition, the chief finding of a new BUSINESS WEEK/Harris Poll, does not appear to reflect public tolerance of the country's racial policies. In fact, three-quarters of those surveyed said that they did not approve of apartheid. Americans simply conclude that tougher measures would not work—and indeed might harm the interests of South African blacks.

The same top-heavy percentage opposes any U.S. government effort to force American companies to withdraw from South Africa, arguing that a pullout would be "somewhat effective" at best in bringing about change. And by 61% to 31%, those polled said it would be "against the interests" of black employees of U.S. companies if their employers closed down.

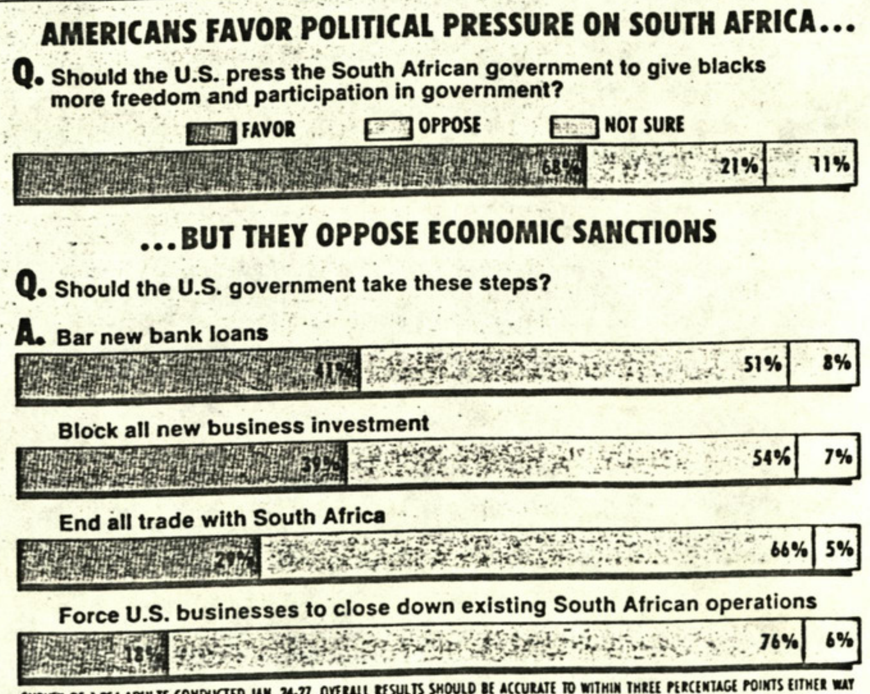
MILITARY BAN. Instead, Americans seem to endorse President Reagan's policy of relying on quiet diplomacy to bring about an easing in Pretoria's racist policies. By 58% to 37%, they believe that such an approach is superior to stronger action.

But increasingly, Americans expect U.S. companies in South Africa to join the campaign against apartheid. By a margin of almost 3 to 1, Americans want those companies to "put pressure on the South African government to change its racial policies." Nine years ago, when Louis Harris asked a similar question, fewer than 50% felt that way.

Opposition to economic sanctions appears to have mounted steadily. In 1976 a bare majority opposed a policy that would force U.S. businesses to divest their South African interests; 76% are now opposed. Similarly, in the earlier survey, a plurality of those polled favored barring new U.S. investment. In a shift of sentiment, an absolute majority now opposes that idea. Americans also reject the suggestions of some apartheid opponents that U.S. banks be barred from lending in South Africa or that a trade embargo be imposed (chart). By a narrow margin, however, they favor the existing ban on military sales.

The poll does suggest that Americans are not comfortable with the U.S.'s civil—if not warm—relations with South Africa's white minority government. Almost two-thirds of those polled said they were "sympathetic" to the recent round of protests at South African government facilities in the U.S. And by a margin of 53% to 39%, Americans declared it "immoral for the U.S. to support a government such as South Africa that oppresses blacks." Yet 64% of those surveyed said the U.S. "must stay on good terms" with the white minority government because of South Africa's rich resources.

By Stuart Jackson in New York



SURVEY OF 1,254 ADULTS CONDUCTED JAN. 24-27. OVERALL RESULTS SHOULD BE ACCURATE TO WITHIN THREE PERCENTAGE POINTS EITHER WAY
DATA: LOUIS HARRIS & ASSOCIATES INC. FOR BUSINESS WEEK

CHART BY DERRICK A. LANGSHAW/BW

an obdurate South African government and increasingly outspoken employees.

The companies will act to lobby Pretoria, probably through the U. S. Chamber of Commerce in South Africa. One executive predicts a convocation of black leaders this year that will pave the way for black talks with Botha. Another priority is lobbying to let blacks set up businesses in central business districts.

Some companies worry that Sullivan's latest requirement, which will not be finalized until mid-March, will force them to break more laws in South Africa. And the Sullivan group has yet to decide how to measure compliance. Such measurements, by Sullivan's auditor, consultants Arthur D. Little Inc., have become more important, since some state laws require divestment of stock in companies that do not get the highest grades.

UNDER CONTROL. The most vulnerable companies are probably those that have refused to sign the Sullivan code, because U. S. state and federal lawmaking efforts are likely to concentrate on them first. Roughly half the U. S. companies in South Africa, such as Chesebrough-Pond's, Ingersoll-Rand, and Newmont Mining, refused to sign the code, claiming they wanted to avoid the dictates of a "third party," though many say they live up to the code's standards anyway.

The biggest success of the Sullivan group, says one executive, was gaining government support for recognizing black unions. Since 1980 the number of black union members has more than tripled, to 670,000, or 15% of the urban black work force. The National Union of Mineworkers has grown to 100,000 members since its founding three years ago.

The NUM has vowed to overcome government and white-union resistance to greater job mobility. Its pressure is aimed at relaxing the migratory mine-labor system and eventually ending the controls that keep rural blacks out of the main cities. But the Pretoria government has not hesitated to use force to keep change under control. Last fall it jailed 11 union leaders without trial, prompting a massive general strike. Later riots over rent and utility-rate hikes resulted in the deaths of 100 blacks.

If unionization continues to grow, blacks may have enough economic power in another 15 years or so to force political changes on their own. Simple demographics and the need for skilled labor require change, businesses say they regularly tell Pretoria. But most apartheid foes, U. S. companies among them, have a far shorter timetable.

By Frederic A. Miller and Bob Arnold in New York, Jim Jones in Johannesburg, Jonathan Kapstein in Brussels, and Carla Anne Robbins in Washington

ANDREW POPPER

BRITAIN

THATCHER RISKS THE RECOVERY TO SAVE THE POUND

The British were expecting good times in 1985. Just a few weeks ago, Prime Minister Margaret Thatcher was confidently predicting tax cuts, low inflation, rising employment, and the fastest growth in more than a decade. But that was before foreign exchange traders, alarmed by the weakness in oil prices and its effect on Britain's North Sea oil revenues, started driving down the pound sterling. Exacerbating the decline is a growing impression that the Iron Lady has become indecisive in managing Britain's economy.

In response, Thatcher has now kicked up short-term interest rates three times in less than a month, including a two-percentage-point increase on Jan. 28. Britain, not the U. S., now offers real interest rates of 9.2%, the highest in the world. By lifting rates in quick steps from 9.5% to 14%, Thatcher is betting that she can rescue the pound without destroying the still-fragile British recovery. But the higher rates will jack up home mortgage rates, and that's likely to dampen consumer buying.

FUTILE EFFORT? Thatcher is taking the gamble because she is convinced that a stronger pound is needed to prevent import costs and domestic inflation, now running at 4.6% annually, from taking off later this year. The concern about the cost of imports is increasingly important because the pound is now falling as fast against the currencies of Britain's major European trading partners as it is against the dollar. But opposition spokesman Roy Hattersley calls the latest rate increase "a tragedy for households, industry, and the unemployed," and many British industrialists agree.

Thatcher's effort to bolster the pound as a petrocurrency may be futile, given the intense pressure on oil prices (page 29). Despite the runup in British rates, the pound failed to stage a signifcant recovery. "If there is renewed, severe downward pressure on the pound, I think [the government] will be forced to let it go," says David F. V. Ashby, chief economist at Grindlays Bank PLC.

If rates remain high, Britain will be lucky to achieve even half the 3.5% growth rate that the government has been projecting for this year. After the latest increase, prices on the London Stock Exchange tumbled by 4% in two days. Adding to the gloom in the City are rumblings that the government is preparing to scale back most of the tax cuts that it had been planning to unveil in its spring budget.

British business will be clobbered if the high interest rates stick. "Our major competitors in Japan and Germany have substantially lower rates, and that is bound to hurt us," says Sir Arthur Bryan, chairman of Wedgwood PLC. Business fears that the higher rates will cause cutbacks in manufacturing investment and inventory building, bringing about a loss in business confidence.

SHE HAS WORRIED BUSINESS BY RAISING INTEREST RATES FROM 9.5% to 14%

But the biggest crunch may be in consumer demand. Most British homeowners can expect rates on their existing mortgages to go up sharply. An oil-field consultant in Sussex figures that the payments on his $44,000 mortgage will jump by $55 a month. Ronald J. Petersen, a London executive of Armstrong World Industries Inc., of Lancaster, Pa., predicts that homeowners will cut back purchases of home furnishings by at least 5% to 10% this year.

So far, the sinking pound apparently hasn't damaged Thatcher's popularity at home. That's because the British electorate believes that factors beyond the government's control are responsible for the drop. But if the increase in interest rates drags down economic growth, Thatcher may face a sudden loss of credibility among British voters matching that of international investors.

By Andrew Wilson in London

30 copies for mailing List.

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Disinvestment