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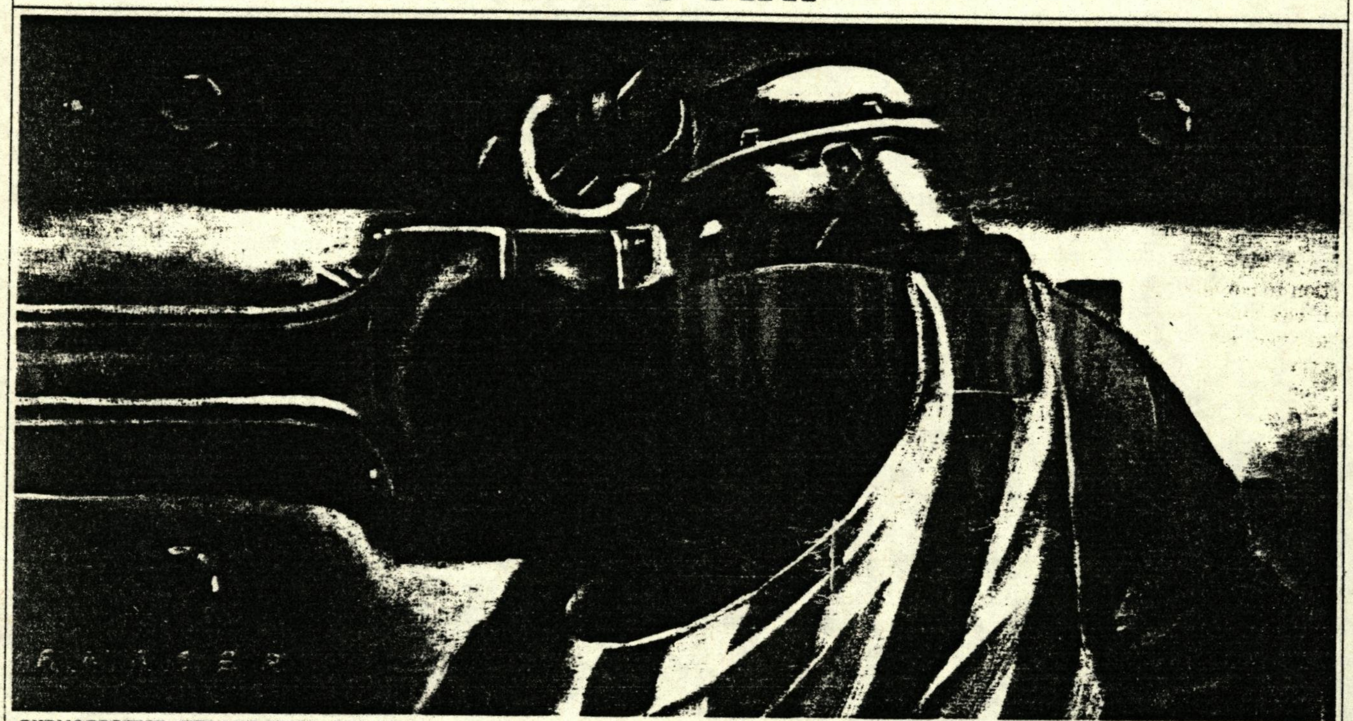
U.S. COMPANIES ARE PULLING OUT—BUT APARTHEID IS LIKELY TO STAY



PUBLIC PROTEST, CITY AND STATE RESOLUTIONS—AND NOW, CONGRESSIONAL SANCTIONS—LEAVE AMERICAN INDUSTRY WITH FEW OPTIONS

DOUGLAS FRASER

It now appears inevitable. The U.S. will impose economic sanctions in an effort to force South Africa to change its white-supremacist policies. Even without the sanctions, U.S. corporations ranging in size from Perkin-Elmer to Coca-Cola are already reducing their exposure, squeezed out by the grim economic environment in South Africa and harassment at home. Foreign companies may step into the breach.

U.S. companies with operations in South Africa have been battered for years by students, city and state governments, and even some portfolio managers. Now, Congress is set to weigh in. The House this month voted to impose sanctions against South Africa, and the Senate is expected to adopt a similar but less stringent bill. Although neither bill would require U.S. companies to sell their South African operations, a compromise bill would at a minimum ban new bank loans and computer sales to South African government agencies. Although President Reagan opposes the legislation, he is expected to sign it.

Advocates believe U.S. disinvestment will shock South Africa's white government into dismantling laws that discriminate against 23 million blacks. But most U.S. business leaders believe their presence in South Africa has helped blacks and that disinvestment will merely cause more unemployment. "~~It makes no sense economically or morally,~~" ~~asserts a spokesman for General Motors Corp., which does not intend to reduce its presence as~~ Ford Motor Co. did earlier this year (BW—Feb. 11). Even so, U.S. direct investment has declined from its peak of $2.6 billion in 1981 to an estimated $2.2 billion last year.

COMPUTERS APLENTY. In addition to Ford, Coca-Cola Co. has signed a $36.6 million agreement giving a South African company control of a Coke bottler in Johannesburg within two years. PepsiCo has also sold its bottling operations to a local business group. Perkin-Elmer Corp., a Connecticut scientific-instruments and computer maker, and Oak Industries Inc. of Rancho Bernardo, Calif., which makes electrical products and components, have ~~sold out entirely.~~

Virtually no U.S. company that has reduced its exposure publicly blames racial strife. But there's little doubt that antiapartheid pressures, combined with South Africa's deepest postwar recession, make it a less attractive place to invest. Says an executive of one U.S. multinational: "Even American companies that have a marginal or small involvement in South Africa—and who do not believe in disinvestment—are going to say, 'We can't afford to spend so much time worrying about South Africa when it's only 1% of our business.' "

Some of the more than 300 U.S. companies in South Africa intend to remain despite mounting protests. GM has just introduced a new Opel Kadett model there, requiring an unspecified but large investment in tooling. Goodyear Tire & Rubber Co., which has been operating in South Africa since 1916, says it has no plans to alter its presence. Mobil Oil Corp., particularly controversial because of its role in providing energy to the oil-short South African economy, also in~~tends to stand firm.~~ "We may be winning the overall [disinvestment] fight," says Richard Knight of the American

Committee on Africa, an antiapartheid group in New York. "But we're not even close to getting Mobil to pull out."

Whether the U.S. disinvestment campaign will have its desired effect depends in large part on foreign competitors. Pretoria will suffer most if U.S. sanctions snowball into an international boycott. In Britain, for example, where the Thatcher government opposes sanctions or a boycott, the U.S. measures could encourage antiapartheid forces.

But other competitors, such as West Germany, Japan, Taiwan, and Israel, may expand their presence in South Africa. International Business Machines Corp. says European and Japanese rivals are approaching its South African customers. "The competition is moving in on our accounts," says an IBM spokesman in Armonk, N.Y. "They're saying you can't be certain about the American companies because of the legislation, that there will be no one to service the products." Brags one South African diplomat: "South Africa can get all the computers it needs in Japan and Europe."

TAIWAN AND ISRAEL. West Germany boosted its exports to South Africa by 33.5% last year, to a record $2.1 billion, and surpassed the U.S. as South Africa's largest provider of manufactured goods. U.S. sanctions could make it politically risky for the Germans to be too obvious in making new investments, but trade links will keep growing. Japan does not allow its companies to invest in South Africa nor its banks to make loans. But its trade with South Africa has been key to Pretoria's attempt to diversify its economic support lines. Toyota, Nissan, and Mazda are major suppliers of autos.

Taiwan and Israel are enthusiastically expanding their roles. To attract Taiwanese investment, Pretoria has eased racial discrimination against Chinese investors, who have been attracted by financial incentives. Over the past two years, as many as 20 Taiwanese factories—making garments, textiles, sweaters, plastic products, furniture, and toys—have opened in South Africa. Similarly, Israel maintains an extensive presence in the so-called homelands, where Pretoria has relocated many urban blacks. Ten Israeli companies have invested in the Ciskei homeland, setting up ventures in computers, agriculture, and textiles.

South Africa's other trading partners make it unlikely that either U.S. sanctions or a decline in U.S. investment can force Pretoria to reverse decades of white-supremacist policies. But for better or worse, sanctions will provide one more reason for U.S. companies to pack their bags.

By William J. Holstein in New York, with Jim Jones in Johannesburg, Boyd France in Washington, and bureau reports

THE WINTER BLAHS COULD LAST ALL YEAR LONG

Europe's two biggest economies, West Germany and France, ground to a halt in the first three months of the year. Because of that, newly minted forecasts for faster growth on the Continent are already in trouble. And if the U.S. economy slows, Europe could be tossed into a jarring slump.

The bad news in Germany and France was balanced in part by Italy and Britain, whose economies grew at respective annual rates of 2½% and 3%. But forecasters are already wondering if those countries can sustain that modest pace.

French government officials shuddered this month when first-quarter economic figures showed zero growth measured on a year-on-year basis. Officially, the government is blaming an exceptionally cold winter and its own continued austerity. But the rest of the year is not likely to be much better. Some private French economists see annual growth of a mere 0.9%.

'ROOM TO MANEUVER.' To spur growth, Finance Minister Pierre Bérégovoy is waging war on stubborn French banks to force them to lower interest rates. "Bringing down rates is the key," an aide says. "Interest rates are where we have some room to maneuver to get some increase in economic growth." The Finance Minister forced a quarter-point cut in the French basic bank rate in mid-May, to 11¼%, but the Bérégovoy camp still considers this unacceptably high in view of France's inflation rate, now about 6½%. Bérégovoy is expected to drive rates down still further.

German officials dismiss a 6% decline in their country's economic performance from January to March as a fluke caused in part by weather. Furthermore, April figures for industrial production and orders show signs of hope, says Paul Porzelt, a director at Sal. Oppenheim Jr. et Cie. in Cologne. The government is sticking by its official forecast of 2½% in real growth, but some private forecasters say annual growth could be a full 1% lower than expected, or 1½%.

The Germans appear less willing than the French to force down interest rates, but with unemployment holding at 10.1%, they may have no choice. The Bundesbank has shaved the rate at which it temporarily repurchases government loans from banks in recent weeks, from 5.55% to 5.5%. The Frankfurt market takes this as a sign that the Lombard rate, now 6%, may come down to 5½% before the end of summer. Predicts Data Resources Inc.'s chief European economist, Jean-Michel Six: "Further falls in interest rates are likely in several countries—France, Germany, Belgium, and Denmark."

RIDING HIGH. The economic mix is likely to be decidedly different in Britain and Italy. Britain's inflation rate is creeping back up to around 7%, and money-supply figures are running above target. Both of these factors will discourage quick cuts in the base rate of the nation's clearing banks, now at 12½%. At best, says Andrew D. Bain, group economic adviser at Midland Bank PLC, interest rates will decline a half percentage point by fall and a further half to full percentage point by yearend.

FINANCE MINISTER BEREGOVOY: FRENCH BANKS MUST LOWER THEIR INTEREST RATES

Like Britain, Italy is more concerned about inflation than interest rates. The prime now stands at 17% and is not expected to come down anytime soon. The high rates have not dampened the Milan bourse, however, which is riding high after Italian voters on June 9 and 10 defeated a Communist-backed referendum aimed at preserving the nation's wage-escalator system. But it will be many months before that decision translates into a lower inflation rate and clears the way for downward movement in interest rates.

By John Templeman in Lausanne, with Frank J. Comes in Paris, Ronald Taggiasco in Rome, and bureau reports