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Why U.S. corporations should get out of South Africa

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The Sullivan Principles smokescreen

In evaluating the consequences of the $1.7 billion currently invested by U.S. corporations in South Africa, the issue is distinctly not whether or not the U.S. firms involved have adopted the Sullivan Principles. Those principles, purportedly designed to ensure upgrading and equal pay for blacks, are in reality little more than a smokescreen. Behind their rhetoric, U.S. transnational corporations continue to help South Africa build up its military-industry machinery to perpetuate oppression of the majority of black workers.

The fact is that directly-held investments of U.S. firms in South Africa employ only about 100,000 workers, less than one percent of all South African workers. Only about half of these are African. Because U.S. firms invest in highly capital-intensive technologically advanced projects, a high proportion of their workers are skilled white workers. Even if U.S. firms were to comply with the Sullivan Principles, they would not significantly improve the conditions of low pay and poverty of the vast majority of African workers.

The primary contribution which U.S. firms make to South Africa's political economy is the introduction of advanced, capital-intensive technologies which increase productivity while reducing labor requirements. Texaco, for example, provided data trying to prove that it had upgraded African workers over the years from 1962 to 1977. Scrutiny of the data shows, however, that while the company significantly increased productivity...
over the fifteen year period, it had actually **reduced** the total number of employees by several thousand. Moreover, it had reduced the number of blacks by more than the numbers of whites. The proportion of African employees dropped from 62% of the labor force in 1962 to 41% in 1977. Far from improving the conditions of black workers, U.S. investment in capital-intensive technologies have actually contributed to increasing the numbers of African unemployed.

Furthermore, careful studies have exposed the difficulties of enforcing affirmative action by U.S. firms in the United States, where the force of federal law may be brought to bear against violators. One may be justifiably sceptical about the extent to which these same firms are likely voluntarily to comply with the Sullivan Principles in South Africa where compliance will certainly conflict with local custom and, in some cases, violate the law.

It seems difficult to accept at face value the companies' public relations assurances that they will conform with the Sullivan principles. The South African press has carried stories pointing out that U.S. parent firms are not always aware of what their South African subsidiaries' labor policies are. The well-publicized story of Polaroid further illustrates the lack of U.S. headquarters' knowledge of South African affiliates' activities in sensitive areas. Polaroid pledged not to let its South African affiliate sell its film or equipment to the South African government for use in the pass books, a key tool for enforcing apartheid. Several years later, it was revealed that the South African affiliate had continued to sell to the South African government, allegedly without informing the parent company.
South Africa's military industrial complex

The overwhelmingly critical issue involved in continued U.S. investment in South Africa is not whether the U.S. companies endorse the Sullivan Principles. Rather it is their role in helping to build up the South African military-industrial complex.

Direct U.S. investments in South Africa multiplied from less than $300 million to over $17 billion in the last decade, precisely during the years when the white minority state capitalist regime was increasingly systematically enforcing apartheid. U.S. firms today directly finance about 17% of all foreign investment in South Africa. More significantly, their investments are concentrated in critical sectors. They provide 25% of all transnational corporate investment in the South African manufacturing industries, which in turn makes up about 40% of all South African manufacturing investment.

It might be noted that U.S. firms were expanding their investment in South African manufacturing in particular in the years when nearly 50 newly independent countries in the rest of the continent were desperately seeking foreign capital for their industries. About 80% of U.S. investment in manufacturing in Africa are in South Africa. About 97% of U.S. investment in basic manufacturing industries on the continent is in South Africa.

To fully comprehend the role of U.S. investments in South Africa, one has to understand the nature of manufacturing industry and its contribution to building up the South African military-industrial complex. The South African government has deliberately sought to encourage the growth of its industrial base as the foundation, not only for economic expansion, but also
for military growth. While South Africa must still import the most advanced aircraft and other military equipment and machinery, its own industries can now produce domestically a substantial share of its military requirements.

The kind of modern military machine which South Africa's minority must maintain to perpetuate its rule is highly capital intensive. It has to enable this limited body of white troops to become highly mobile and efficient, covering vast territories and controlling large numbers of widely dispersed enemies. Therefore, the government has sought to acquire the most modern means of transport on air, sea and land; computerized telecommunications and administrative techniques; and nuclear weapons.

To ensure the development of the industrial base in a direction calculated to most effectively help build up this essential military-industrial machine, the South African government has long intervened directly in the economy through a series of parastatals, state corporations which cooperate closely with the private sector. These are closely inter-linked through capital and members of their boards of directors to the government on the one hand, and to the mining finance houses that dominate the private sector on the other. There is, in other words, no such thing as the 'free play of market forces' in the South African economy. Firms investing there must inevitably become enmeshed in a tight network of parastatal-private company linkages, as illustrated in Chart 1.

South Africa's state capitalist regime has cooperated with the mining finance houses and transnational firms to extend its domination, not only over the blacks within its borders, but also into neighboring countries. This is most evident in the case of Namibia. There, the South African government continues to
**Chart 1: South Africa's Military-Industrial Complex**

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<thead>
<tr>
<th>Government</th>
<th>Parastatals</th>
<th>Private Sector</th>
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<tbody>
<tr>
<td>Administration</td>
<td>Armscor - weapons</td>
<td>7 mining, finance houses, led by Anglo-American corporation</td>
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<tr>
<td>Police</td>
<td>Iscor - iron and steel</td>
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<tr>
<td>Army</td>
<td>Escom - electric power</td>
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<td>Navy</td>
<td>Sasol - oil, iron, coal</td>
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<td>Airforce</td>
<td>Sentrachem - chemicals</td>
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<td></td>
<td>SAH&amp;KK - railways, harbors</td>
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<td>IDC - development corporation to assist private sector</td>
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*Parastatals:*
- Armscor - weapons
- Iscor - iron and steel
- Escom - electric power
- Sasol - oil, iron, coal
- Sentrachem - chemicals
- SAH&KK - railways, harbors
- IDC - development corporation to assist private sector
- etc.

*Private Sector:*
- 7 mining, finance houses, led by Anglo-American corporation
- Transnational corporations, including U.S.-based
- (40% of manufacturing investment)
- Transnational banks
- (two-thirds of bank assets)
exercise the colonial authority it assumed at the end of World War I, despite United Nations efforts to help the Namibian peoples obtain independence. Over the years, South African policy has opened up Namibia's wealth to South African mining finance houses collaborating with transnational corporations. The Tsumeb copper mine, owned by the U.S. firms, AMAX and Newmont, together with South African interests, is the biggest. The Kossing uranium mine, developed by RioTinto Zinc and South African and other European interests, is perhaps even more important to South Africa's plans for military-economic domination of the region. South Africa's government is determined to create conditions for continued exploitation of Namibia, even if it attains titular independence.

Botswana, Lesotho and Swaziland are linked to South Africa in a Customs Union which it dominates through its industrial might. Essentially, these small neighbors, especially Swaziland and Lesotho, have been reduced to little more than glorified bantustans. Their main mineral wealth is excavated by Anglo-American corporate affiliates, either alone or in collaboration with U.S. or other foreign firms. The systematic underdevelopment of their economies has forced their populations to become an impoverished labor reserve, available for employment on South African mines and farms when demand warrants.

The white minority illegally ruling Rhodesia clearly could not remain in office without South African support. The South African mining finance houses, especially Anglo-American, together with western transnational firms, provide the necessary conduit for the continued flow of manufactured goods, including modern weapons of war and oil, without which the minority regime could not remain in office for a week. The U.S. government's misplaced reliance on South Africa to mediate can only serve to foster South
Africa's efforts to perpetuate this profitable connection after Zimbabwe wins political independence.

The role of U.S. firms

U.S. investments made in this context inevitably contribute to strengthen South Africa's essential industrial base, expansion of its military capacity, and its continued domination of the southern African region. This is illustrated by evidence relating to the role of the major U.S. transnational corporate investments there.

U.S. firms have played a major role in building up South Africa's transportation facilities, a critical contribution to a minority regime whose scarce high level manpower must be able to move rapidly throughout extended territories. General Motors, along with Ford and Chrysler, produces a major share of South Africa's trucks and cars. It also produces locomotives for use by the South African government's parastatal, SAH&HR. The South African subsidiaries of General Motors are manned by persons 'dedicated' to the South African regime.

Vic Bear, of the GM National Council (South Africa), declared during a campaign to raise funds for the South African Army:

I respectfully accept the accolade ('dedicated'), knowing fullwell that all 241 of the Chevrolet dealers are determined to give of their best in working with you and all serving Army personnel in the R1 million fund-raising target.

But more than that: GM itself has been designated as a National Key Point industry because of its strategic importance for the continued operation of the South African military. In a secret memorandum delivered by hand to the Detroit GM office, GM's South African affiliate spelled out the implications of this status:
industries or services as designated as National Key Points...will be accorded protection in emergencies through the medium of the Citizen Force Commando system...(white personnel) are encouraged by authorities to join a local commando unit.

The memo explains the dual role of top U.M. personnel under military control:

"The U.M. Commando' would assume guarding responsibility for the U.M. plants and would fall under the control of the local military authority for the duration of the emergency. It is envisaged...that plant personnel could be engaged in a composite function, i.e., part normal work and part guard duty in such situations.

This double-edged role is required for top U.M. personnel because of the relative scarcity of skilled whites;

...compulsory military service is applicable only to White males citizens. The concept of utilizing plant personnel in a dual function is related to the fact that key skills, technical and managerial expertise are concentrated in the same population group from which defence requirements...must be drawn.

It seems unlikely that the principles proposed by Sullivan, a member of the U.M. international board of directors, could, even if enforced, counterbalance the contribution of the South African U.M.'s role in supporting the white minority regime in its designated status as a National Key Point. While evidence has not come to light specifically implicating other U.S. firms as National Key Points, they play a role which would qualify them for the same dubious status.

U.S. multinational corporations' South African affiliates produce the electrical equipment and appliances
essential to electrify and automate the minority's industrial and military activities. International Telephone and Telegraph (ITT) the ninth largest firm in the U.S., has extensive operations in South Africa. An ITT affiliate, Standard Telephone and Cables (STC) is one of South Africa's largest electrical manufacturing concerns, producing a wide range of technologically complex electrical equipment. It supplied communications equipment for the police and Simonstown Naval Base and recruited engineers to operate it. In 1975, it reported that 70 percent of its sales were made to the South African Government. Although ITT sold a majority of its shares in STC to South African partners recently, it continues to provide advanced technological inputs and managerial assistance as necessary.
South African General Electric (SAGE) produces a wide range of basic equipment: industrial controls, capacitors, locomotives, and so on. These have important military applications. SAGE is an important supplier of government's ESkom which is building and maintaining the national electricity grid, including nuclear power plants, to facilitate the use of the most sophisticated technologies in all sectors of the economy. General Electric holds 15 percent of a large (West German firm), AMG-Telefunken, which has become another of South Africa's major manufacturers of electrical equipment. AMG-Telefunken is heavily involved in providing components for Project Advocaat, an advanced military communications system that is part of the military build-up on the Cape route.

Sperry Rand has a South African subsidiary which sells \$7.5 million worth of aerospace, communications and farm equipment annually. Much of this equipment may be used for military as well as civilian purposes.

Motorola assembles and sells electronic equipment in South Africa. In 1977, about 15 percent of its sales there were to agencies of the South African Government, including two-way radios used by military police. While it has agreed to end direct sales to the South African army and police, it continues its other sales in South Africa which may always find their way to military uses.

International Business Machines (IBM) sells a third of its South African sales to the Government. It has supplied the regime's police and Defence Department and its nuclear program. Computerization plays a vital role in South Africa, above and beyond direct military uses, by enabling the white minority to retain a tight grip on management and supervisory jobs despite a shortage of white top-level personnel, without up-
grading blacks.

A number of U.S. firms have helped South Africa build up its nuclear capacity with obvious military implications. As experts have emphasized, there is no such thing as a solely peaceful military technology.

South Africa bought its first nuclear reactor, Safari I, from the U.S. under the 'Atoms for Peace' program. Allis-Chalmers helped to install it. South African nuclear scientists were trained at the U.S. Atomic Energy Commission laboratory in Oak Ridge. The U.S. has provided enriched uranium to South Africa as recently as 1976.

The Foxboro Corporation sold South Africa's Pelindaba nuclear center two computers. The French firm, Framatome, a member of the consortium contracted to build the Koeburg nuclear power station, is 15 percent owned by Westinghouse. Westinghouse supplies it long-term licenses for the advanced technology required for building nuclear projects.

Since South Africa itself has no oil reserves, its minority regime has been highly dependent on transnational corporations, including those from the U.S., to build up its oil-from-coal capacity, and to accumulate stored reserves, as well as to pass on supplies to Rhodesia. SASOL, the South African government-owned oil-from-coal project, was built with U.S. and FRU transnational corporate assistance. SASOL is building its second large project with the assistance of Fluor, a California-based construction firm, and Badger, a subsidiary of Raytheon. Honeywell is to provide much of the necessary electrical equipment.

U.S. firms have invested heavily in refining and distributing oil throughout southern Africa, basing their operations on their South African refineries. They import their crude oil from their...
wells elsewhere, mainly Iran, and refine it in South Africa. Mobil refines about 90% of the oil it refines in Africa in South Africa. As evidence has been produced to prove, it also ships oil to Rhodesia in violation of UN sanctions. Caltex, California Standard Oil and Texaco's South African refinery, expanded its capacity in 1975 to 100,000 barrels daily. Caltex also owns almost a fourth of Mobil's lubricating oil refinery in Durban.

Transnational banks, especially those from the U.S., have played an increasingly important role in assisting South Africa's military-industrial complex to deal with the growing unrest of the oppressed black population. They have helped mobilize domestic and international capital to assist South African and transnational corporations to finance their growing investments in South Africa's economy; and in the crisis of the 1970s they came to the rescue by furnishing huge international loans to the government and parastatals as well as to the so-called 'private' sector.

Transnational banks, especially Barclays and Standard banks, hold about 60 percent of the assets of the 20 largest banks in South Africa. The three top banks in the United States -- the Bank of America, Citibank and Chase Manhattan -- have significant activities there, both directly and through their relationships with British banks. Citibank is the fourth largest transnational bank in terms of assets in South Africa, and has three branches operating there. It admits holding South African government bonds, in compliance with South African law, in effect lending funds to the white minority regime. Citibank owns $2/3 of the British merchant bank, M. Samuels, which constitutes an additional channel for its South African business. Citibank also owns 49 percent of the British...
Grindlays. Grindlays' chairman sits on Citicorp's board. Grindlays has major holdings in Rhodesia, including one of the four largest commercial banks there.

Chase Manhattan closed down its South African branches when it acquired a 15 percent share in the Standard Bank. When the U.S. Federal Trade Commission required Chase to divest itself of its Standard holdings because Standard began to operate in the U.S., Chase re-established a representative office in South Africa. It continues to work in close cooperation with Standard in providing credit and international links for major corporate investors.

The British subsidiary of Bank of America shares three directors with Kleinwort Benson Lonsdale and its affiliates. One is director of the consortium bank, Midland and International Banks, Ltd., which includes Midland Bank and Standard, both of which have large South African holdings. Kleinwort Benson helped the South African government establish the Accepting Bank for Industry, a merchant bank, and holds shares in it. Kleinwort Benson Lonsdale also holds a 33 percent interest in J.L. Clark and Company, an industrial holding company in South Africa.

In the military and economic crisis which beset South Africa in the mid-1970s, U.S. transnational banks mobilized about a third of the vast sums of international capital -- at least $9 billion -- which transnational corporate finance institutions funnelled into the country. It is impossible to break loans into 'civil' and 'military' components. While it is difficult to identify the details of all the loans made by U.S. firms, it is clear that
U.S. banks made a major contribution to the beleaguered regime. The Bank of America, for example, admitted that it has loaned $100 million to South Africa as of 1977, with a fourth going to the South African government. But, as the discussion of the interrelations between public and private corporations should make clear, even loans to the private sector contribute indirectly to building up the military-industrial complex, enabling it to import essential technologies for industrial development, as well as freeing up other funds for the purchase of military equipment and oil. What is distressing is that the United States government assisted the U.S. financial institutions by lending funds to South Africa by providing insurance and guarantees for loans to finance exports to that country. From 1972 to 1976, the U.S. Export-Import Bank insured or guaranteed trade with South Africa worth about $691 million. In 1977, Ex-Im Bank agreements included funds for turbo-commander aircraft, as well as essential capital and equipment for the military-industrial sector.

By the late 1970s, as the dollar's value plummeted, South African gold rose rapidly in value, reaching well over $200 an ounce. At that point, U.S. banks' loans were not as critical to the South African government. They continued to play an important supportive role, nevertheless, by helping South Africa to sell its gold, including several million dollars worth of Krugerrands, on the world market; and by financing continued industrial expansion of transnational corporate investors.

In short, United States corporations have played a major role in building up and supplying the South African military and industrial complex. By concentrating their African manufacturing investments in South Africa, they have contributed to transforming that country's political economy into a regional sub-imperialist
center. South Africa has been able to utilize U.S. funds and technological advances to strengthen its minority-operated military-industrial complex and its ability to withstand the efforts of the African populations to win liberation.

Is U.S. investment in South Africa important to the U.S?

The South African lobby in the U.S. has published ads in the Wall Street Journal obviously designed to convince U.S. investors to continue to help build up apartheid economy, in which they argue that the U.S. will be the loser if U.S. firms cut off investment there. These arguments are false.

First, U.S. corporate investments, even the biggest ones like those of General Motors, constitute only a small percentage of U.S. firms' world-wide assets—typically less than 2%. These investments are not vital to the profitability of U.S. corporations. They are, however, crucial to survival of the South African regime.

Second, if U.S. firms leave, the South African apologists maintain, the firms from Europe and Japan will take their place. The fact is that, increasingly, U.S. firms have been giving leadership to European and Japanese firms with involvement in South Africa. In a number of cases, they own shares in them. In fact, Japan's government prohibits investments of its nationals in South Africa, so Japanese firms, in which U.S. firms hold shares, send their machinery and equipment to U.S. firms' factories to be assembled and sold in the South African market. General Motors, for example, assembles and sells trucks and cars produced by its Japanese affiliate. If the U.S. firms with drew, the European and Japanese firms, pressured by their own anti-apartheid movements, would probably follow suit.
Third, the South African lobby insists that South African minerals, especially chrome, are essential to the U.S. This is grossly exaggerated. The fact is that because of past involvement of U.S. firms, the U.S. has tended to rely on minerals imported from southern Africa. This is especially true of chrome, produced by Union Carbide in Rhodesia and South Africa—and Union Carbide has been a major supporter of the South African lobby in the United States. But there are other sources of such minerals. The U.S. itself has large stockpiles. And if the U.S. firms spent the same amount of time exploring for new deposits in independent Africa as they have in South Africa, or in developing substitutes, South Africa's control of mineral resources would become decreasingly significant.

The attitude of South African blacks

It is argued by South African and U.S. corporate spokesmen that for U.S. corporations to end their trade with and investment in South Africa would harm the black populations of the region. These crocodile tears hardly seem justified.

Transnational corporate investments in the most capital-intensive sectors of the economy reduce employment potentials of South Africa's industrialized economy. Unemployment today in South Africa is estimated to be about 2 million, about a fifth of adult male workers. (Women are excluded from the estimates, as it is assumed they do not seek work, though if apartheid permitted them to live in the towns with their families, it is probable that many more would seek jobs if they could find them.) Beyond that, South Africa's oppressive regime ensures profitable business for U.S. and other corporate interests by holding down the wages of the masses of the population. By pushing those without work back into the Bantustans, too, they...
deny them any unemployment compensation or social security payments; the Bantustan Administrations have no funds to provide the amenities of a welfare state. This may keep taxes down for the white minority and corporate interests, but the resulting black hunger and diseases that decimate the population has been aptly characterized by the liberation movement as genocide.

The black population's spokesmen, when given the opportunity have voiced growing opposition to transnational corporate investments.

The African National Congress has long urged withdrawal of transnational corporate investments and trade. Steve Biko and the Black Peoples Convention expressed their opposition.

Apologists for the South African regime have claimed that U.S. businessmen who have asked have found no one who opposes continued investment. But they neglect to point out that under South African law it is an offence punishable by jail -- or worse -- to oppose foreign investment. On the other hand, former U.S. Ambassador to South Africa, William Bowdler, cabled the U.S. that he found growing opposition among all segments of the black population to continued U.S. trade and investment.

What is perhaps most intriguing is the fact that when a U.S. embassy officer visited Port Elizabeth, a center of South Africa's motor industry, where GM, Ford and U.S. tire firms are among important employers, the workers "complained of inadequate training, job reservation, lack of union status, arbitrary promotion, abuse by SA foremen and job insecurity..."

Bowdler's cable concluded:

With radicalization of black attitudes, tendency to call for divestment grows stronger. Added to heightened expectations from new U.S. administration on South African issues, must be expected that role of American firms here will become increasingly controversial and less persuasive to growing number of blacks.
The responsibility of American scholars:

American scholars, concerned with the way U.S. corporate involvement in South Africa has strengthened the white minority's military-industrial complex, have begun to play an important role in alerting the U.S. academic and broader community to the growing dangers of the situation there.

Many students and faculty throughout the United States have been urging university boards of trustees to sell the stock of companies with investments in South Africa. This has had a significant impact in terms of bringing the issues involved to the public.

The Association of Concerned African Scholars (ACAS) is urging its members to take additional actions to bring the facts to the broader community. Among other techniques they suggest are: letters and articles in local newspapers; radio and TV forums and debates; and establishment of a local faculty-student speakers bureau which could bring the facts to church, trade union, and other community groups. ACAS also urges its members to talk with local congresspersons and city and state officials about the importance of ending U.S. government support for U.S. firms' involvement in South Africa. Specifically, concerned scholars could urge tightening up of the U.S. government's enforcement of the U.N. military embargo, extending it to cover nuclear as well as conventional military supplies and equipment; urge passage of legislation to end U.S. tax credits for firms with investments in South Africa; and, perhaps most important, support United Nations sanctions against any further trade with or investment in South Africa.
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27. Seidman and Makgetla, op. cit., p. 36-7.

28. Seidman, Ann and Neva, op. cit., Chapter on minerals.


30. To obtain copies of Association statement of principles and newsletter, write to Association of Concerned African Scholars, c/o Mike Bratton, Political Science Department, Michigan State University, East Lansing, Mich. 48824.