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SPECIAL REPORT

SANCTIONS AND THE SOUTH AFRICAN ECONOMY

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SANCTIONS AND THE SOUTH AFRICAN ECONOMY

Within the next several months, the International Court of Justice is expected to rule against the Republic of South Africa on the issue of its continued administration of South-West Africa. When it does, Afro-Asian and Communist demands for wholesale economic sanctions against South Africa, particularly by the main trading partners, the US and UK, are certain to reach a new high. The booming South African economy, however, remains the most modern and best balanced in all Africa, and the threat of economic sanctions has spurred it to attain increasingly greater self-sufficiency. The Afro-Asian and Communist trade boycott instituted some three years ago to force changes in South Africa's racial policies has been no more than a nuisance to the republic, and in mid-1965 its economy was measurably less susceptible to outside economic pressures than when the boycott began.

General Economic Condition

The last four years of economic boom have wrought dramatic changes in the makeup of the South African economy, which continues to break nearly all production records. New industries have been started, and existing ones have been expanded markedly. South Africa now has the beginnings of a substantial armaments industry and soon will be producing its own military aircraft. Automobiles and trucks, which heretofore were only assembled in the Republic from components imported from abroad, will eventually be produced almost wholly within South Africa.

Foreign investment, chiefly from the UK and US, is responsible for many of the new plants and much of the new equipment, but an increasing amount of industry is locally owned. Afrikaans-speaking South Africans, once content to leave the Republic's factories in the hands of their English-speaking compatriots, now control a growing number of the country's manufacturing plants.

South Africa's prodigious mineral wealth is being exploited at record levels. Indeed, rapidly expanding gold production has been a major factor in sparking the boom. There have also been rising earnings on merchandise exports, sharp increases in government expenditures, especially on defense, and a rapid introduction of new technology.

As a result of all this activity, the slack in the economy has been just about eliminated. Resources are now fully employed, prices are going up, gold production continues to

TABLE I

SOUTH AFRICA'S GROSS NATIONAL PRODUCT
(In Millions of US Dollars at 1958 Prices)

	1960	1961	1962	1963	1964
Private consumption	4,929	4,866	5,191	5,664	6,303
Public consumption	757	809	934	1,011	1,116
Gross capital formation	1,525	1,494	1,485	1,791	2,038
Exports of goods and nonfactor services	2,206	2,374	2,512	2,678	2,762
Imports of goods and nonfactor services	-1,877	-1,730	-1,792	-2,139	-2,674
Net factor income from abroad	-281	-316	-280	-284	-297
Terms of trade adjustment	-28	11	13	-52	78
Gross national product	7,231	7,508	8,063	8,669	9,326
Percent increased	-	3.8%	7.4%	7.5%	7.6%

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TABLE II

CONTRIBUTIONS OF SOUTH AFRICA TO FREE WORLD SUPPLY
OF SELECTED MINERALS IN 1963

Commodity	Percent of Free World Production
Gold	70.4
Chromium ore	33.5
Platinum-group metals	41.8
Antimony	37.4
Manganese ore	20.3
Vanadium	19.9
Uranium, U308	15.0
Diamonds	13.0
Asbestos	10.3

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increase, although at a declining rate, and more and more locally produced goods are being consumed within South Africa. In fact, unless the government markedly alters its policy of keeping nonwhites out of many jobs, additions to the labor force will be well below the level required. Although the economy will continue to grow at a respectable rate, some slowdown from four years of boom is inevitable. This slowdown does not, however, indicate any basic weakness in the economy.

Despite the apparent futility of their campaign, Afro-Asian and Communist countries with little or no stake in trade with South Africa will continue to demand that the Republic's major trading partners institute a boycott. They will not be deterred by the evidence that such actions could have extremely serious consequences--especially for the UK--or by the growing consensus in responsible quarters that South Africa would be able to outlast any such boycott.

The composition of South Africa's economy, its geographical setting, and the determination of the government to go its own way all combine to make the country one of the least vulnerable to economic sanctions.

The Changing Economy

Accelerated industrialization in South Africa has been accompanied by a relative decline in agriculture, whose share of the net domestic product fell to only nine percent in 1964. Part of this decline reflects a prolonged drought, but most of the change results from the shift of resources into manufacturing, construction, and mining.

Mining production jumped from $550 million in 1955 to more than $1 billion in 1964. In the same period, the private manufacturing and construction sector grew from $1.1 billion to $2.4 billion, an increase of about 113 percent. By comparison, agriculture grew only 21 percent during the same decade.

An unusually large share of South Africa's income is the result of foreign investment. In fiscal year 1964 about 7.2 percent of the net domestic product went to overseas investors, including $95 million in salaries and wages earned by foreigners in South Africa.

Net domestic product estimates for calendar year 1964 are not available, but according to South African statistics released at mid-year 1965, gross national product in 1964 increased by 7.6 percent, maintaining the level of the previous two years (see Table I).

Mining

South Africa is a major supplier of minerals to the free world--almost $1.5 billion worth last year--and consuming countries would have difficulty finding alternative sources (see Table II).

Gold production dominates the country's mineral industry. In 1964, output reached 29.1 million fine ounces, equivalent to 70.4 percent of free world production. Gold sales totaled about $1.023 billion in 1964, a 27-percent increase over 1961. New mines have been opened, and higher rates of production have been achieved in some existing mines. Many older mines, however, especially in Witwatersrand, operate at very little profit. Annual production increases seem likely to continue, but rates of increase will certainly decline barring new discoveries. Gold production rose 10.7 percent in 1962, but only 6.4 percent in 1964.

Diamond production jumped more than 20 percent in 1964, and sales brought a record $61.9 million. Production increases in the Republic's mandated territory of South-West Africa were even more striking than in the Republic itself. Sales of South-West Africa's gem and industrial diamonds which are marketed through the Republic amounted to about $84 million in 1964--some 47 percent over 1963. Although the spectacular growth in 1964 may not be repeated, diamond production in both the Republic and in South-West Africa is likely to continue to increase markedly. Rich fields have been discovered in northern Cape Province. Further, the innovation of offshore dredging has been very successful in South-West Africa. Last year 286,000 carats' worth--close to $8 million, or almost 10 percent of the value of the territory's total diamond production--were recovered in this fashion.

Oil has not yet been found, despite a relatively intensive search. Coal is used for about 85 percent of the Republic's energy requirements, is essential to the transport system, and is the feedstock for a growing synthetic gasoline industry. The country's coal reserves are enormous: 25 billion tons of proved reserves, and 50 billion tons of known but not yet proved reserves. Production in 1964 reached 49 million tons, worth in excess of $100 million.

Agriculture

Farming is decreasing in importance relative to other economic sectors, but still provides the bulk of the Republic's exports other than gold. South African crops, like those of the United States, range from temperate to tropical products.

Corn has been a most important export crop, and the six-million-metric-ton harvest in mid-1963 produced a considerable export surplus. However, drought reduced the 1964 harvest to less than 4.3 million metric tons, and the crop harvested this past July was even smaller. For the first nine months of 1964, corn exports earned about $133 million in foreign exchange, but sales this year will fall off sharply and exports in 1966 are expected to be negligible. As a result of the corn shortfall, over-all South African agricultural production in 1963-64 increased

TABLE III

INDEXES OF MANUFACTURING OUTPUT
(Base: 1956/57 = 100)

	1961	1962	1963	1964
Food	122.9	127.3	135.0	140.8
Beverages	130.4	137.7	155.9	178.8
Tobacco	93.5	91.4	98.6	102.6
Textiles	163.6	177.7	190.0	221.2
Clothing and footwear	117.6	119.3	129.3	143.0
Timber	108.6	124.4	139.1	144.1
Furniture	103.5	105.4	118.9	131.7
Paper and paper products	137.8	155.0	182.9	199.2
Printing	135.4	144.9	169.5	191.4
Leather and leather products	96.7	100.3	107.7	117.7
Rubber products	103.8	106.2	118.3	135.5
Chemicals and chemical products	129.7	142.5	156.5	176.6
Petroleum and coal products	138.6	149.6	182.4	291.0
Nonmetallic mineral products	112.8	113.3	127.7	156.7
Basic metals	134.8	139.5	165.9	186.7
Metal products	105.8	115.3	137.8	164.1
Machinery	122.0	131.4	140.6	158.5
Electrical machinery	120.8	129.6	155.4	184.9
Transport equipment	104.2	130.6	179.4	226.6
Miscellaneous	142.0	160.0	171.5	201.4
Composite weighted index	122.0	130.3	148.3	170.1

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less than one-half of one percent over the previous year.

Manufacturing and Construction

From a 1956-57 base, manufacturing output increased more than 70 percent by the end of 1964. The greatest growth occurred in the more sophisticated manufactures and in certain basic industrial activities. Petroleum and coal products, for example, increased 191 percent, transport equipment 127 percent, electrical machinery 85 percent, and chemicals and chemical products 77 percent. Large additions to capacity in 1964 are likely to result in even more substantial increases in output (see Table III).

Thus far, at least, foreign and local investors have shown no appreciable reluctance to invest in South Africa, and government efforts to increase investment in industry have been very successful. For example, work has begun on a $32-million Caltex refinery, construction is under way on a $17-million Japanese automobile factory, a

$34-million aircraft factory is programed, and the Anglo-American Corporation is planning a $140-million steel-vanadium project at Witbank. Much of this new investment will reduce the Republic's dependence on imports and hence, to some degree, the effects of any boycott. Rates of return, reported to range between 20 and 30 percent annually, provide a major incentive to investors.

Labor

South Africa's widespread shortage of skilled labor may become acute despite heavy additions to both the white and nonwhite labor force. Pressures are growing to end or modify the government's practice of reserving certain jobs and trades for whites only.

Immigration has increased, but government efforts to ease the shortage of skilled workers by recruiting abroad have failed, partially because of the "unsettled political situation" in South Africa. Many skilled workers were unwilling to move to a country which might be the target of "unfavorable" international actions in the near future.

As a practical matter, the job-reservation policy is becoming more honored in the breach, and in increasing instances white and nonwhite employees work side by side, although at markedly different pay scales. This erosion of apartheid in the labor field is causing considerable concern among white unionists. Some unions reportedly will insist that the infiltration of nonwhite workers into traditionally white jobs be controlled, and that nonwhite workers be permitted to join white unions or that nonwhite unions be given legal status. Many white unionists are disturbed by increasing employer preference for lower paid nonwhites. Labor leaders also fear that an increase in nonwhite workers will enable employers effectively to resist demands for wage increases from the white labor force.

As a result, these unionists are now arguing that a nonwhite who does a white man's work must receive the same salary as the white worker. They also claim some white unions represent Africans, despite legal prohibitions. In addition, they note that white unions accept colored and Indian workers in the Cape Province, and that these nonwhites are moving into white jobs as more and more employers simply ignore job reservation.

Foreign Trade

Much of the equipment and material needed to sustain South Africa's economic growth is imported from the industrial countries of Western Europe, from the United States, and more recently from Japan. In return, South Africa ships most of its exports to these markets. Only a negligible amount of trade is with independent African countries, which at least partially explains the failure of the Afro-Asian boycott to cause South Africa more than minor inconveniences.

TABLE IV

DIRECTION OF SOUTH AFRICAN IMPORTS
Monthly Averages in Thousand US Dollars

	January - September	
	1963	1964
United Kingdom	40,946	48,992
United States	22,714	33,189
West Germany	14,997	15,234
Japan	6,556	9,442
Canada	4,968	5,627
Italy	4,069	5,194
France	4,083	4,540
Netherlands	3,399	4,338
Switzerland	2,263	3,301
Sweden	2,333	2,885
Total all countries	136,730	173,477

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In 1963 the bulk of the Republic's imports came from the UK (about 30 percent), the US (almost 17 percent), and West Germany (nearly 11 percent). Incomplete trade data for 1964 indicate that the US and Japan increased exports to South Africa substantially. For the first nine months of 1964, the monthly average of US exports was about $33 million, 46 percent more than the same period in 1963. Japanese exports rose 44 percent during the same time span. Exports from the United Kingdom increased 20 percent (see Table IV).

The UK bought a third of South Africa's exports in 1963 and was again the largest purchaser in 1964. The US, however, slipped from second place in 1963 to third place after Japan in 1964. This change was the result of a sharp increase in Japanese purchases rather than a sharp decline in South African exports to the US. Japanese imports from the Republic increased about 32 percent during the first nine months of 1964, compared with the same period in 1963. West Germany, South Africa's fourth most important customer, also increased imports --by almost 14 percent (see Table V).

South African exports are largely agricultural and mineral products. Imports are mostly

TABLE V

DIRECTION OF SOUTH AFRICAN EXPORTS
(Monthly Average in Thousand US Dollars)

	January - September	
	1963	1964
United Kingdom	32,279	34,360
Japan	7,647	10,068
United States*	8,417	8,883
West Germany	5,466	6,239
Belgium	4,544	5,938
S. Rhodesia	...	5,930
Italy	5,227	4,900
France	3,245	3,457
N. Rhodesia	...	3,305
Netherlands	3,072	2,502
Total all countries	104,372	110,032

* Excluding uranium.

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manufactured goods, machinery and transport equipment, chemicals, and petroleum. In 1963 imports of goods in these categories totaled $1.3 billion, about 77 percent of all imports. Petroleum products alone were $107 million. The largest category of US exports to the Republic last year was nonelectric machinery ($125 million), followed by chemicals ($52 million), textiles ($38 million), and motor vehicles ($27 million).

In 1964, total imports rose about 23 percent, but exports increased only 6.5 percent. As a result, the trade deficit increased sharply from $390 million in 1963 to $710 million last year. South Africa's gold output, in excess of $1 billion, helped to finance this deficit, but for the first time in recent years the current account went from a favorable balance of $207 million in 1963 to a deficit of $109 million in 1964.

By 9 July 1965, gold and foreign exchange reserves had reached a low of $475 million. Despite the warning signs evident in the balance of payments and the continuing decline in reserves, South African officials do not seem unduly concerned. Clearly, however, barring an unlikely upsurge in exports, imports will have to be reduced before many more months.

The Boycott

The Afro-Asian and Communist trade boycott of South Africa--designed to win a reversal or major amelioration of the Verwoerd government's apartheid policies--has in fact been counterproductive. Instead of weakening the economy, it has given impetus to the government's program of economic nationalism and helped to stimulate the Republic's rapid growth. The boycott's failure to influence appreciably South Africa's domestic policies points up the relative unimportance of the Afro-Asian and Communist countries in the Republic's trading pattern and the necessity for the Republic's major trade partners to participate if sanctions are to be effective at all.

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Furthermore, many African countries continue quietly to trade with South Africa, which has suppressed its foreign trade data since January 1964 so as to avoid Afro-Asian harassment of those countries. [redacted] 25X1

[redacted] removed South Africa's name from official trade statistics and replaced it with a "miscellaneous" category. 25X1

[redacted] 25X1

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Even before the boycott, South Africa's trade with the Communists was not very important. In 1963, its exports to the Communist world were about $15 million, of which China took $6 million, and imports were less than $12 million. Although this trade has since declined sharply, it is continuing, either directly or, especially in the case of China, through third parties. [redacted] 25X1

Neither Japan nor Iran, the Republic's major Asian trading partners, has shown any inclination to restrict trade. Iran, which supplies the bulk of South Africa's petroleum requirements, has already pleaded before the UN an inability to halt shipments of oil, pointing out that Iranian oil exports are handled by a consortium of foreign companies rather than by the government. Tehran also argued that experience had shown that when supplies from one country were stopped, the gap was immediately filled by other countries.

Although an oil embargo is a favorite subject for those pushing for economic sanctions, South Africa's vulnerability to this form of pressure is more apparent than real, especially in view of the world oil surplus. Moreover, commercial interests of producing countries tend to outweigh political causes that do not immediately affect them. Iran, for example, still supplies most of Israel's oil needs, despite years of protests by Arab governments. Furthermore, South Africa has taken steps to reduce its petroleum vulnerability; it is building more storage facilities, adding new refining capacity, and is investigating setting up its own oil-tanker fleet which would operate under a flag of convenience.

South Africa's indifference to African pressure tactics also extends to possible secondary boycotts against countries and companies doing business with the Republic. South African Airways has already been banned from most African countries, but the company has maintained the increasingly profitable routes to Europe through Lisbon via Portuguese West African Territories and the Canary Islands. If foreign airlines were prevented from serving South Africa, the country would be further isolated, but this would not be serious.

A marked reduction in ocean shipping serving South Africa could deal the Republic a crippling blow, but an effective secondary shipping boycott is almost inconceivable. The ships of the three US lines serving

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South Africa generally make no stops on the continent other than at South African and Portuguese African ports. For lines serving other ports, South African tonnages are far more important than the sum of cargoes collected along either the East or West African coasts--probably worth five or six times the combined totals of Kenya, Uganda, and Tanzania. Thus, shipping interests might well choose to cut out other countries rather than abandon their more profitable South African calls.

The Effect of Sanctions

With the complete failure of their own halfhearted efforts to boycott South Africa, the Afro-Asian countries have turned their attention increasingly toward enlisting the participation of the Republic's major trading partners. On 1 December 1964 the Organization of African Unity sought such support, arguing that "the regime can be forced to come to its senses or to relinquish its hold over the governmental machinery in South Africa...(through) the use of concerted economic sanctions...." Four days later the OAU apparently concluded the job was simpler and that "a total embargo on the sales of rubber to South Africa can sufficiently achieve the above purpose." Earlier it held a similar position with respect to an oil embargo.

However, independent studies on South Africa's ability to withstand boycotts of selected items such as petroleum or rubber generally agree that the country's economy could stand such denials indefinitely. The Republic's

Many Afro-Asian countries refuse to recognize the military, political, and economic realities involved in a boycott of South Africa, or the fact that boycotts simply do not work. Even the present arms embargo, agreed to by most countries, has not halted the flow of weapons to South Africa. France, for example, is quite willing to supply South Africa a variety of military wares and, as a matter of principle, refuses to consider an economic boycott and has even declined to participate in UN discussions of the problem.

British Prime Minister Wilson has called oil sanctions "something very relevant to near-war or war situation." The UK considers British implementation of economic sanctions completely out of the question, partly because of the virtual impossibility of enforcing an embargo, but chiefly because the cost to the British economy would be prohibitive. Neither West Germany nor Japan has shown the slightest inclination to take any initiative in economic sanctions.

South African Countermeasures

In clamoring for a boycott, South Africa's more vocal African critics seem unaware or unconcerned about the Republic's ability to institute countermeasures. Likely targets would be the British High Commission Territories adjacent to or surrounded by South Africa. The UK has reported to the UN that, if South Africa cut off trade with the territories, the effect would be "disastrous" in Basutoland and a "severe economic crisis would develop for Bechuanaland which the United Kingdom would be powerless to avert." The prospect for Swaziland was described as likely to be "serious." Should South Africa also repatriate migrant labor, the problem would be even worse. [redacted]

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South Africa's role as the world's largest gold supplier gives it a potent economic weapon of reprisal. A denial of South African gold exports to world money markets either by South African initiative or as the result of a boycott would be most serious. There is already a greater demand for monetary gold than can easily be satisfied from present stocks. Furthermore, the increasingly propensity of some countries, France for example, to hold gold rather than dollars is putting an additional strain on dwindling US gold stocks. Monetary authorities are increasingly concerned with the problem of international liquidity and, given the present makeup of the world monetary system, the denial of South Africa's annual addition of over a billion dollars to the world gold supply would likely have an extremely deleterious effect. [redacted]

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