ECONOMIC SANCTIONS AGAINST SOUTH AFRICA DURING THE EIGHTIES

by

MICHAEL HENDRIK SAREL LOUW

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PROMOTER: DR. D C KROGH

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SUMMARY

Import sanctions were used to a very limited extent against South Africa in the early sixties and latter half of the seventies to clearly signal the international community's disapproval of the country's apartheid policy. In the middle eighties South Africa was further exposed to a two year wave of export and financial sanctions. This was after the government had already committed itself to move away from apartheid as a policy that was no longer deemed feasible. All these sanctions were lifted in the early nineties after the abolition of apartheid but before negotiations for a new constitutional dispensation had firmly got under way.

Contrary to some popular impressions, the 1985-87 sanctions were also severely limited in scope and nature, with the result that their economic impact was only marginal at best. They were introduced at a time when the country unexpectedly had to face a foreign debt crisis and had to drastically adjust the economy downward, not unlike that experienced by many other developing countries. The severe recession and greater socio-political unrest that followed did not lead to an escalation of sanctions, but nevertheless threatened to make large parts of the country ungovernable. The evidence is that sanctions only played a minor role in bringing about this poor and deteriorating state of affairs.

The political aims of abolishing apartheid and preparing the way for negotiations was achieved mainly as a result of certain internal political developments, together with the political implications of such major other outside developments as the economic collapse of Sub-Saharan Africa and the Soviet Union.

South Africa's experience with sanctions confirms that as elsewhere their economic impact as an instrument of foreign policy was invariably exaggerated, whereas their contribution in explaining the subsequent course of political events was at best uncertain.

KEY WORDS

Economic sanctions; Economic impact; Political developments; Vulnerability of economy; Divergent political goals; Unacceptable behaviour; Perceptions created through propaganda; Deteriorating economy; Non-escalation of sanctions; Savage sanctions; Signal sanctions; Major foreign policy objective; Minor foreign policy objective
PREFACE

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PART I

INTRODUCTION
CHAPTER 1

PURPOSE, APPROACH AND OUTLINE

1.1. Purpose of study

A survey of the world’s literature on the use of economic sanctions as an instrument of foreign policy suggests that in general much greater success is claimed for it than can be established in the research of the various sanctions episodes. It is the limited purpose of this study to evaluate the trade and financial sanctions imposed against South Africa between 1985 and 1987 to achieve qualified political ends in a relatively short period of time. The study could provide an indication of the extent to which the sanctions imposed against South Africa played a role in the political developments at the time. For this purpose, the study will focus on only official trade and financial restrictions. It will not address the impact of less tangible factors such as people sanctions, or restrictions on technology flows. It will, however, give special attention to the diverse political aims that were pursued in order to remove apartheid and establish majority rule sooner than might otherwise have been the case. These considerations are central to the ultimate evaluation despite the fact that they are not always amenable to systematic and objective analysis. The period under review can be divided into three distinct stages, i.e. 1980-1985 (the immediate preceding period to sanctions), 1985-1987 (the imposition of sanctions), and 1987-1992 (the period of non-escalation of sanctions).

1.2. Approach

The approach of the study distinguishes two kinds of impact of the 1985-87 sanctions. The first is the direct economic impact which lends itself to fairly rigorous analysis, but not without the common difficulties that can be encountered when applying economic thought and statistical methods in explaining particular experiences. These are mentioned in chapter 4 where the importance of political propaganda in the use of

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sanctions is also discussed, and they include the restrictive, or even fallacious, results obtained by relying too heavily on the convenient *ceteris paribus* assumption, not considering developments over time, confusing cause and effect and allowing wishful thinking to cloud one's judgment.

In interpreting the economic impact of the relevant sanctions measures both individually and macro-economically, extensive use is made of the findings of other research economists that recorded events in great detail at the time and applied econometric analysis to the South African experience in a way that must be quite unique in the study of sanctions. The latter even analysed the likely impact of further escalations in sanctions by distinguishing various scenarios which greatly helped to put the actual impact into much better perspective, and also to clarify the real as distinct from the fancied policy options available at the time.

The fact remains, however, that although the analysis of sanctions in the case of South Africa is simplified due to the absence of the escalation of sanctions after 1985-87, it is a complex exercise because sanctions were applied at a time when rapid changes were also being experienced in the domestic, regional and world economic as well as political environment. Much of this is taken into account in explaining not only the nature and scope of the particular sanctions in order to evaluate their impact on the South African economy, but also in explaining the absence of the further escalation of sanctions.

The most difficult and also the least objective task of the analysis is to determine the influence of the economic impact of the sanctions in achieving the particular political aims, particularly because the latter were clearly diverse. Here political science would perhaps contribute more than the disciplines of an economic approach. Even then, however, the economic dimensions of alternative political scenarios could not possibly be ignored in such an analysis. A multi-disciplinary approach would probably yield a more balanced and scientifically acceptable conclusion regarding the political success or otherwise of South Africa's particular sanctions episode. The approach and conclusions of the present study may hopefully prove of value in such a more comprehensive approach.
1.3. Outline

Apart from the introductory and concluding sections, the study consists of three parts. Part II, entitled Political Objectives, Economic Theory and Experience is in the nature of a general survey of sanctions. It explains that sanctions are economic measures designed to serve political ends, and must ultimately be judged accordingly, not only in terms of their economic impact. Furthermore, the theory underlying the use of sanctions is set out here, but it is too simplistic, and rarely very useful to analyse specific experiences. Chapter 3 discusses the various ways in which trade and financial sanctions can have an economic impact and goes on to identify additional criteria that are more relevant in analysing the economic impact of a set of sanctions measures. It also points out that in the final analysis, however, it is the perceived rather than the actual economic impact that counts at the time. Chapter 4 discusses the importance of propaganda in this regard and sets out a general political cycle of sanctions that such episodes are inclined to follow. It also draws attention to the most common analytical pitfalls that face an economic approach in determining the impact of sanctions. Many of the analytical concepts introduced in part II are used in the subsequent analysis of the South African experience.

Part III, with the title Apartheid, Economic Setbacks and the Escalation of Sanctions, sets out the political objectives, namely the speedy abolition of apartheid and the establishment of black majority rule, as well as the case for the use of sanctions to attain these objectives into an economic historical perspective by distinguishing the period before the application of apartheid as official policy from that afterwards. Accordingly, the following main theme is examined, namely that apartheid experienced growing political opposition as the system was eroded through economic integration in practice, that sanctions were reluctantly escalated at times of recession when socio-political unrest occurred over decades before 1985-87, and that the sanctions introduced during the middle eighties did not lead to any further escalation despite the persistent deterioration in socio-economic conditions afterwards. These considerations greatly assist in explaining the nature of the relevant political objectives pursued with sanctions, and ultimately the success or otherwise of the particular exercise.

Part IV entitled The Economic Impact of Sanctions against South Africa and other Important Developments examines firstly, the set of sanctions imposed during 1985-87 in order to determine whether they were in fact comprehensive, universal and mandatory in nature, i.e. whether they were so-called savage or signal sanctions. This helps to assess
whether the sanctions could be expected to have caused any considerable economic damage, and also whether the sender countries intended them to do so after all. This is followed in chapter 9 by an analysis of the various attempts to quantify the economic impact of the actual trade and financial sanctions, as well as that of various escalation scenarios. These results are also put into a quantitative political context. Next and before concluding on the role of sanctions in the final part of the study, attention is drawn in chapter 10 to the importance of certain international, regional and domestic developments with far-reaching political implications for South Africa during the second half of the eighties that must have been equally, if not even more relevant in explaining the course of events leading to the lifting of sanctions.

A summary of the main findings of the study together with several qualified conclusions that questions any dramatic role ascribed to sanctions in the South African experience is contained in Part V. The use of sanctions against South Africa as a foreign policy instrument has many unique features that decidedly makes it both country and time specific.
PART II

POLITICAL OBJECTIVES, ECONOMIC THEORY
AND EXPERIENCE
CHAPTER 2

THE POLITICAL OBJECTIVES OF SANCTIONS

2.1. Introduction

A state's autonomy is represented, among other things, by its ability to promote its own interests abroad and protect them from outside. This leads to interaction between various nation states. The relationship a state chooses to pursue with other nation states is the essence of foreign policymaking. The process of foreign policymaking comprises two steps. Firstly, it is necessary to identify the nature and significance of the objective sought and secondly, a choice has to be made from a range of foreign policy instruments available, of which the economic sanctions option is one, to pursue the identified objective (Cohen 1968: 4).

The purpose of this chapter is to review sanctions in general as a means to achieve certain foreign policy objectives. It will discuss what sanctions are, indicate where they fit in the range of foreign policy instruments and also review when, why and under what conditions sanctions are normally imposed. The chapter will show that ultimately the particular foreign policy objective is often the most important factor in influencing the scope and nature of the sanctions measures that are imposed against a particular country. It will conclude by briefly relating the general theory to the South African situation. The following chapter will deal with the elementary economic theory, the specific criteria required for analysis of the economic impact of sanctions as well as a simple classification of the different kinds of sanctions, while chapter 4 will highlight certain shortfalls in both the political and economic theory that make the analysis and evaluation of sanctions difficult and often unsure.
2.2. Definition of sanctions

It is clear from surveying the literature that there are various specific definitions of what economic sanctions are and when they are used. Some are related to a trade environment, others to a political environment while still others are related to a military environment. For the purpose of this study, economic sanctions will be defined as follows:

Economic sanctions are the official imposition of various economic penalties by one or more countries (senders) against another country (target) to bring about certain changes in political behaviour (foreign policy objective) of the target country.

This definition will be analysed more closely with a view to providing a framework for analysing the imposition of sanctions against South Africa during the eighties. It should be emphasised here that the political changes are the ultimate objectives (aims) while the economic penalty is an intermediate objective (means). Consequently, the success of sanctions can only be accepted if the political objectives have been attained. The role of the economic penalties in bringing this about has, therefore, to be put in some perspective because the size of the penalty is not always the most important factor in achieving the political objectives.

2.2.1. Sanctions as official measures

Sanctions are considered to be those measures imposed by the government of the sender country. These measures are brought about either through the legislative process or through policy statements, which represent the declared policy of the government of the day regarding a certain issue. The measures clearly identify the type of deliberate intervention to be taken by the sending country to penalise the target country. These measures have to be strictly adhered to and enforced through government institutions, and any contravention (circumvention of sanctions) by its residents or other states is considered to be a criminal offense or one that will be strongly disapproved of by the government of the day, respectively.

1 See section 2.3.2 of this chapter regarding the type of measures that can be introduced to impose economic penalties.
Those measures imposed by non-governmental organisations such as particular constituent states or provinces, cities, churches and other civic organisations, or even individual companies are not considered to be sanctions for present purposes. These measures, although they might influence the interaction between the sender and target countries as well as the debate regarding the relationship between the sender and target countries, are unofficial and can only be considered as voluntary. However, these groups can lobby government and attempt to influence its opinion on a specific matter so that the government incorporates the recommendations of these groups into legislation or as part of foreign policy. Only when the government responds by imposing the recommended measures, are the measures official.

As will be shown in chapter 3, the effect of the sanctions of one country can be enhanced if the measures are imposed by more than one country. A multilateral approach can be forthcoming if other countries, although not directly affected by the unacceptable behaviour, at least agree with the broad aims of the sender country or are convinced by the sender country that the behaviour of the target country is unacceptable and needs to be addressed, i.e. they have similar political objectives. By conveying the behaviour as an international problem, which could also affect the interests of other countries if the behaviour continues unchallenged, multilateral support for the sender country’s aims can be gained, thereby increasing the initiating sender country’s sphere of influence over the target country.

When more than one country decides to act collectively against the target country, use can be made of the institutional framework within which an individual nation interacts on a regional basis, such as the Organisation of African Unity, the Organisation of American States, or on an international basis where the United Nations can fulfill this function. In the case of the United Nations, for example, the Charter prescribes the conditions, procedures and measures under which sanctions can be imposed. Under the Charter of the United Nations (Article I (1)) enforcement action can be applied to three appropriate situations, i.e. breach of the peace, act of aggression or a situation which is defined as threatening the peace (Doxey 1987: 12). Chapter VII of the Charter of the United Nations empowers the Security Council to make the final decision which member countries are then obliged to carry out. The non-military coercive measures that
can be taken are listed in Article 41 of the Charter. They are the "complete or partial interruption of economic relations and of rail, sea, air, postal, telegraphic, radio and other means of communication, and the severance of diplomatic relations." (Doxey 1987: 9).

The United Nations itself does not, however, have the capacity to enforce sanctions measures against a target country but relies on the participation of each member country. Because the imposition of collectively agreed upon sanctions to pursue the foreign policy objective is delegated to each member country, it allows scope for differences in application. This is because individual countries have differences in administrative capacities, are willing to make different economic sacrifices, have different interpretations of the relevant behaviour as well as the foreign policy objective, and are affected by the behaviour differently. It follows that there might not only be confusion in practice regarding the political objectives pursued but also the measures that are to be imposed. The only measures that such an international institution can take to enforce conformity are the possible expulsion of the deviant from the institution, or by imposing punitive measures against non-conforming members, as decided upon by the other members. Therefore, an individual country will impose agreed upon sanctions if it is in its interest to do so, i.e. when it agrees with the foreign policy objective, is willing to bear some of the costs associated with such action and does not want to suffer the possible repercussions of non-compliance. In practice, however, domestic agendas can still override such universally prescribed sanctions as was the case with the United States Byrd Amendment which was in direct contradiction to the mandatory United Nations sanctions against the former Rhodesia. So also the highly dependent small southern African countries were specifically exempted from the strict application of Commonwealth sanctions against South Africa as it was realised that such measures would be devastating for their respective economies.

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2 The Byrd Amendment allowed for the importation of Rhodesian chrome by the US because Rhodesian supplies were considered important to American interests (Strack 1978: 146).
2.2.2. Sanctions are designed to impose economic penalties

The use of sanctions in pursuit of a foreign policy goal is an attempt to impose penalties against the target country. To the target country, the cost of the sanctions can be seen as the difference between the newly reduced level of economic benefits compared with the level of benefits that prevailed before, and were probably to have continued had the restrictions not been applied, and assuming also that all other things remained the same. This penalty has to be directly associated with and judged against the behaviour that triggered the sanctions. The theory of sanctions is based on the assumption that a target country will refrain from continuing with certain unacceptable behaviour if the costs to it associated with the sanctions are high. The target country is assumed to undertake such a cost-benefit assessment regarding its behaviour, and if the costs that are directly linked to the sanctions measures are weighed up against the benefits of the objectionable behaviour and found to be greater, then the target country should logically refrain from continuing with its behaviour. If, on the other hand, the benefits of the behaviour for the target country exceed the costs, the target country is likely to continue with its behaviour.

From the above it can be inferred that the greater the deviation from what is regarded as acceptable behaviour, the greater the benefit the target country extracts from such behaviour and, therefore, the greater the penalty that needs to be imposed against the target country in order to persuade it to refrain from continuing with its behaviour. The extent of the cost of the sanctions to the target country is, therefore, directly related to the seriousness of the political objective (see section 2.3 of this chapter). Each level of disapproved behaviour, therefore, has a certain limit of perceived discomfort beyond which the target country is not willing to tolerate further sacrifices (costs exceed benefits), and the political will to continue with the controversial behaviour can be expected to collapse.

It is, therefore, important to impose sufficient sanctions measures to reach or just pass this threshold of discomfort to the target country. Either excessive or insufficient costs could, in fact, result in the political objectives not being achieved. If the economic costs imposed by sanctions are far in excess of what is needed to achieve the desired change in policy, there is the real danger that the harm to the economy may be unnecessarily

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3 The assumption has to be made that the target country extracts certain benefits from the objectionable behaviour otherwise it would not have pursued it in the first place.
excessive and, therefore, counterproductive. On the other hand, if the costs are perceived to be negligible and the discomfort threshold not met, the sanctions will have little or no effect in bringing about the desired changes in policy. The sanctions might even encourage further controversial political behaviour. As perceptions of the costs or penalties are central in driving the sanctions debate, it follows that the sender of sanctions will tend to inflate the perceived costs of sanctions\(^4\) to the target country in an attempt to reach the threshold quickly, whereas the latter will be interested to play down the true impact of sanctions if it does not want to alter its behaviour. (See chapter 4 for the need to shape perceptions and review policy in this regard in practice).

In practice the apportionment of a specific measure to a particular political objective is, of course, often problematic as it is uncertain what actual costs the imposed measures will bring about. As a result it is difficult to link the chosen measures with the economic impact thought necessary to achieve the threshold of discomfort in order ultimately to change the controversial policy of the target country. It becomes even more complex when, although there may be broad consensus among the sender countries on the political issue, there are still different approaches to the similar objectives resulting in different measures being imposed (Doxey 1987: 82).

The emphasis so far has been on imposing costs on the target country. However, it should be borne in mind that the sender also has to undertake a cost-benefit analysis in determining its particular sanctions measures. The measures taken to impose costs on the target country also have consequences for the sender countries\(^5\). As the benefits of international economic interaction flow in both directions, any deliberate disruption to this interaction will imply costs for all participating countries (target and sender(s)) albeit most likely in different proportions (see chapter 3). Therefore, the imposition of penalties does not only have to meet the discomfort threshold in the target country, but the costs the sender country experiences itself, also have to be justified to its own constituents. Sanctions can only be expected to be successful if the latter's threshold of sacrifice (sender) is sufficient to meet the target country's threshold, i.e. senders of

\(^4\) This coincides with Adler-Karlsson's (1968) claim that the sender countries involved in the sanctions have to provide "the burden of proof" to show that the measures are effective (Adler-Karlsson 1968: 10).

\(^5\) Hufbauer (1990) suggests that a less obvious cost is that associated with being considered an unreliable supplier. He finds that the USA often loses out to European and Japanese firms on potential business because firms are not willing to run the risk of U.S. sanctions (Hufbauer 1990: xii).
sanctions are willing to make the minimum sacrifices required to impose the necessary costs on the target country to achieve the relevant political aims.

The threshold of the sender does, however, not only relate to the willingness of the senders to impose costs but also to the actual capacity of the sender to do so. As will be pointed out in chapter 3, a country can only impose costs through economic sanctions if there is adequate economic interaction between the countries concerned (sender and target). If there is little or no interaction, no costs can be imposed on the target country even though the most comprehensive sanctions are in place. But this also means that the sender country does not bear any costs. As a result, a non-interactive sender country can afford to impose savage sanctions without sacrifice, but also without being capable of causing the necessary economic damage to the target country which is required to increase the likelihood of achieving the foreign policy objective. Under such circumstances, the importance of a multi-national sanctions campaign involving more influential sender countries to make sanctions effective is self evident. Likewise, significant costs can be imposed by the sender with few measures or little sacrifice if the target country is economically very dependent on it. These costs, even though limited, still have to be justified to the sender's citizens in terms of the broader foreign policy objectives.

The scope and nature of the penalties eventually imposed do not only reflect the intensity of the political objectives sought but are strongly influenced by a complex interaction of numerous other dependent variables such as the capacity of the sender country to impose costs, the actual costs of the sanctions that the sender countries have to bear as well as the willingness of the senders to bear these costs. However, because the political objective is the catalyst that triggers the use of sanctions as a foreign policy instrument it is important to understand which kinds of foreign policy objective can best be pursued through the use of sanctions.
2.3. The range of objectives of sanctions

Sanctions are a foreign policy instrument which is used to achieve a certain foreign policy objective. The essence of any sanctions episode, therefore, revolves around what the sender countries want to achieve in the target country.

2.3.1. The changing use of sanctions

The imposition of sanctions is not a modern day phenomenon. They have been used since early times\(^6\) on different occasions for various reasons and in varying degrees as an instrument to achieve some or other political objective. Historically, sanctions were used as part and parcel of a broader policy to bring about a drastic change in behaviour on the part of the target country. It was originally used almost exclusively in situations of warfare. Economic sanctions were, under such circumstances used to augment military efforts by way of restricting access to strategic resources\(^7\), for example, in order to weaken or undermine the military and industrial strength of the enemy (target), thereby limiting its capacity to either act aggressively or defend itself\(^8\) (Doxey 1987: 33).

It was the vast destructive capacity of the two world wars during this century that led to the need to replace or restrict the use of military confrontation as a means of influencing foreign policy. The rapid expansion of world trade and finance resulted in the increased use of sanctions as an alternative to armed aggression. This brought about a paradigm shift regarding the use of sanctions. According to Kádár (1984),

"the constraints on using military power have directly increased the importance of economic measures, the latter becoming partly the pillars of détente and international security, but, at the same time, an increasingly important means of influencing strategic power relations." (Kádár 1984: 13).

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6 Sanctions were applied for example circa 432 BC by Athens against Megara, and US colonies boycotted British products in response to the passing of the Stamp Act in 1765 (Hufbauer and Schott 1985: 210).

7 The problem of identifying what constitutes "strategic" resources can be taken to the extreme. Stalin apparently stated that even the buttons on a soldier's pants were strategic, because, if they were missing, the soldier would have to hold up his pants and not be able to handle a rifle to fight.

8 The term that is equated with the need to augment military confrontation is economic warfare. Blockades form part of the strategy to cut off the target country from all supplies perceived to be important for its war effort.
This paradigm shift can be illustrated by figure 2.1.

Figure 2.1: The progression of sanctions as a foreign policy instrument in its own right

Pre-World War II era

<table>
<thead>
<tr>
<th>Diplomacy (excluding sanctions)</th>
<th>War (including sanctions)</th>
</tr>
</thead>
</table>

Post World War II era

<table>
<thead>
<tr>
<th>Diplomacy</th>
<th>Sanctions</th>
<th>War</th>
</tr>
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</table>

The restraint on military power by using sanctions instead results in a larger gap between the two extremes of diplomacy and warfare as a means of pursuing foreign policy objectives. The importance of sanctions as a foreign policy instrument is, therefore, enhanced and as such can be judged in its own right, and not as part of diplomacy or warfare. However, this does not preclude its use to complement either of the two other common means. If the set of sanctions is used to complement a war effort it must be realised that the role of the sanctions has in fact changed from being a substitute for war to one of complementing war and has, therefore, to be judged from a different perspective.

This new approach to foreign power relations was formalised in the international institutional framework that came into being this century, particularly after World War II. It was realised that the increasing economic interdependence of the world would make it more useful to pool resources where there were common policy objectives between the different countries regarding the behaviour of another country. Accordingly the international institutions created after both wars, the League of Nations and the United Nations, included provisions for imposing sanctions as a multinational means of intervening in world affairs. Article 16 of the Covenant of the League of Nations obliged all members to sever all trade and financial relations immediately and recommend military force if one country was attacked by another (Renwick 1981: 9). The fact that the actual act of aggression first had to take place before the members could take action
restricted the League's ability to deal with a country before it transgressed too far. This shortfall led to a change in emphasis under the United Nations. Article 39 of Chapter VII of the United Nations Charter calls on the Security Council of the United Nations, if unanimously agreed upon, to impose sanctions against a country that "poses a threat to international peace before it actually breaches it" (Doxey 1987: 84). Therefore, the United Nations has the ability to be proactive rather than reactive as was the case under the League.

With the support for sanctions embedded in the international institutional framework, individual countries and other international organisations have come to place more importance on sanctions as a foreign policy instrument. This is reflected in the increasing use of sanctions to influence areas of dispute since World War II but, particularly since the late sixties and early seventies. They have been used for a wide variety of different foreign policy issues, imposed with different degrees of intensity, by different countries or groups of countries.

2.3.2. The modern use of sanctions

As economic sanctions have become more important as a foreign policy instrument so too has the range of issues that they are intended to address. Although sanctions are almost automatically imposed as part of a war effort, the modern use of economic sanctions usually has the purpose of achieving some foreign socio-political objective that could not be achieved through the use of normal diplomatic means. Sanctions are, therefore, used when there is an unwillingness to justify or desire war measures. There is usually a great deal of rhetoric and emotion surrounding any sanctions episode, and as a result confusing and conflicting statements regarding the political objectives are made. However, the main reason for imposing sanctions can be accepted as the stated

9 Sanctions have been used more often and for a wider range of different foreign policy issues (Hufbauer 1990: x). This period was coincidentally preceded by the end of the Vietnam War which brought about a further re-evaluation of military intervention, particularly on the part of the USA.

10 See Hufbauer and Schott (1985) for an indication of the range of sanctions measures that have been imposed by different countries.

11 This study will not consider the use of sanctions to pursue economic policy (trade war) but only in the restricted sense "to bring about a change in the political behaviour of the country against which they are imposed", as suggested by Renwick (1981: 2).
intentions of the sanctions simply because such aims become operational in deciding when to lift the sanctions again. It should be pointed out that although there are numerous examples of episodes that illustrate the diverse application of sanctions\textsuperscript{12}, only the use of sanctions as a substitute, not an enhancement of war, will be reviewed in this study. The diverse primary objectives that fall into this category will, for the sake of convenience, be consolidated into two main categories, viz. major and minor policy objectives.

2.3.2.1. The pursuit of a major foreign policy objective

A country or group of countries (sender) will strongly attempt to influence developments in another country (target) if it is clear that those developments affect the sender directly or indirectly. The type of response will depend on how the sender interprets these developments, i.e. to what extent it perceives the behaviour of the target country to deviate from the one it wants it to pursue. If the sender country perceives the behaviour of the target country to differ significantly from the sender's norms (absolute) and poses a threat to the very existence of the sender, it will consider it imperative to act against the target country. The type of behaviour that would be considered absolute would be that of aggression against another country\textsuperscript{13}. This could include a direct transgression by way of invading sovereign territory, or that of a close ally or colony\textsuperscript{14} which threatens the national security or the very existence of that nation. The transgression is not easily open to subjective interpretation\textsuperscript{15}. When a nation's sovereignty is threatened it can be expected that the transgression will be met immediately with the established defense mechanisms at the disposal of the state. It will also muster the support of as much of the

\begin{itemize}
\item \textsuperscript{12} Hufbauer and Schott expand on this and suggest five broad objectives for imposing sanctions namely, modest policy changes, destabilisation, disruption of military adventures, military impairment and other major policy changes (Hufbauer and Schott 1985: 80).
\item \textsuperscript{13} Citizens of a state in another country fall into this category. For example, Iran's holding of the USA embassy hostages brought about a response in the form of sanctions. Libya's threat against USA nationals resulted in Libya being declared a terrorist state.
\item \textsuperscript{14} The imposition of sanctions against Argentina to withdraw from the Falkland Islands provides a good example.
\item \textsuperscript{15} Hufbauer (1990: x) suggests that this is the reason for sanctions being effective in the 1960s when they were used in "settling expropriation disputes and in campaigns to destabilise 'undesirable' governments."\
\end{itemize}
international community as possible and attempt to reverse the transgression through the use of multilateral sanctions, before resorting to a military response. It would, therefore, be a major foreign policy objective for the senders to punish the target country in an attempt to force it to cease with its activities.

The type of sanctions that would be invoked to deal with forms of absolute transgression would be the most severe possible. The measures imposed by the sender countries would attempt to inflict maximum damage on the economy of the target country so that the costs associated with the transgression are as high as possible to the latter. The higher the costs, the greater the likelihood of the target country changing its behaviour. These extreme measures are often referred to as savage sanctions and are synonymous with a major policy objective.

However, not all forms of transgression are absolute and easy to classify. The concept of national security does not only refer to the protection of national independence and territorial integrity, but also to the preservation of minimum national core values. Physical survival is not usually valued highly unless accompanied by cultural survival as well (Cohen 1968: 5). The inclusion of this latter aspect allows for a whole range of less obvious issues to fall into the ambit of foreign policy objectives. Any issue that is contrary to a country's own outlook can theoretically invoke a foreign policy response in the form of sanctions. This does not only refer to issues between countries but also to issues within a country that are considered to be contrary to the policies of the sender country. Because of the diverse range of issues that can fall into this classification, together with a myriad of interpretations, a common approach to the issue is less straightforward. Multilateral consent is even more difficult to obtain when addressing what is perceived to be a form of relative transgression.

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16 The contents of savage sanctions will be discussed in chapter 3.
2.3.2.2. The pursuit of a minor foreign policy objective

Certain actions taken by one country might be considered to be an "obvious" or "clear" transgression by some, but not necessarily all other countries. Very often the behaviour is related to domestic policies pursued within the target country and have little if any direct impact beyond its borders. A good example is the issue of "human rights", which has become a foreign policy issue particularly for the USA since President Carter (Hufbauer 1990: 6).

The fact that countries are sovereign states implies the pursuit of different domestic policies that have developed over time in accordance with divergent historical, cultural and economic environments. Each country is unique in many respects. It is, therefore, very difficult to identify definite norms against which a country's behaviour can be judged as acceptable or unacceptable. The behaviour of the target country is not of an absolute but rather of a relative nature (open to interpretation depending on each country's particular perspective).

As a result, when the behaviour of one country is highlighted by another as being unacceptable there can be numerous different interpretations regarding the scope and nature of the so-called unacceptable transgression. This makes it difficult to pursue effectively many common foreign policy objectives. Even when the sanctions are used to pursue the same foreign policy objective, it is likely that different degrees of sanctions will be imposed. This is not only true if there are different interpretations of the transgression but also because there could very well be different approaches in dealing with the transgression. Some countries that feel as strongly as the major sender about the transgression may be expected to impose similar sanctions, as the objectives are similar. At the same time, other countries which interpret the transgression more leniently can impose less severe sanctions, or in fact refrain from imposing any sanctions at all. It follows that under such circumstances it is difficult to prescribe to a target country for operational purposes what the change in behaviour should be in order to justify the lifting of sanctions.

Generally, when the policy objective of sanctions is relative, the kind of sanctions that are imposed can be expected to be of a selective nature. These sanctions do not have the intention of imposing significant or crippling costs on the target country, but only sufficient damage to show that the controversial transgression should be reviewed or
terminated otherwise sanctions can be expected to escalate. Such selective sanctions are
often referred to as signal sanctions\(^{17}\), i.e. intending to send a signal to the target country
as a warning to change its behaviour. This should be distinguished from savage sanctions
referred to earlier. Many sanctions episodes start off by sending signals to the target
country. If no progress is made in achieving the stated objectives, however, the sender
country could send a stronger signal by imposing more comprehensive measures (in the
range of restrictions and also the number of sender countries). This escalation brings
about a disproportionate increase in the cost to the target country of continuing with its
unacceptable behaviour. Therefore, an important component of the signal sanctions is
the threat of an escalation of sanctions if there are no changes in the target country’s
behaviour.

It was suggested earlier in this chapter that even if sender countries agree on the extent
of the transgression, i.e. they agree that it is either of an absolute or relative nature, it is
possible to have different responses from various countries to pursue the same foreign
policy objective. This is often due to the fact that their response is strongly influenced by
less obvious secondary goals. These secondary goals, although not independent of the
main objective, may be necessary in order to make the pursuit of the primary objective
and the associated costs of the sanctions easier to explain and justify to each sender
country’s particular constituents\(^{18}\).

### 2.3.3. Secondary objectives

As discussed above, the stated primary policy goal reflects the main issue that is being
pursued through the imposition of sanctions. However, included with most primary goals
are other secondary goals which are not stated clearly when sanctions are imposed. Very
often policy makers respond to interests not relevant to the stated foreign policy
objective. Not only does the literature\(^{19}\) suggest that there are other goals which are

\(^{17}\) The content of signal sanctions will be dealt with in chapter 3.

\(^{18}\) Frey (1984: 58) shows that interest groups that are better organised are more adept at expressing their
concerns on certain policy issues, and gain at the expense of badly organised groups. Producers are more
efficient than consumers in protecting their own interests as they form lobby groups while consumers are
very rarely that well organised, even though the specific policy measure might not be in their interest.

often not stated, but given the empirical evidence\textsuperscript{20}, these often appear to be more relevant in deciding the choice of the particular sanctions measures imposed. Usually these secondary goals pertain to the politico-economic environment of the sender nation\textsuperscript{21}.

The secondary goals are also strongly influenced by the cost incurred by the sender country when imposing the sanctions against the target country. Although the pursuit of the primary goals might be laudable, the imposition of sanctions, as has been stated earlier, implies a cost element not only to the target but also to the sender country. The sanctions measures that the sender country chooses attempt to reconcile these costs with the various domestic interest groups within the country. The choice of sanctions measures can, therefore, often be focussed more on meeting domestic considerations than to serving the foreign policy objective. The sanctions can, however, only be successful if the scope and nature of the sanctions eventually applied actually match what is needed to achieve the foreign policy objective.

Another aspect that influences the cost and effectiveness of sanctions and which has not received much attention in the literature, is the target country's interpretation of the impact and its response to the sanctions.

2.4. The response of the target country

In the foregoing outline the emphasis of the theory of sanctions has been to view the scope and nature of the sanctions imposed from the perspective of the sender countries, i.e. what their political objectives are, what necessary penalties have to be imposed on the target country, and what costs sender countries can and are willing to carry. Attention must, however, also be paid to how the target country interprets and responds to the sanctions imposed against it. The interpretation by the target country of the policy objectives (major or minor) and the manner in which they are pursued (savage or signal sanctions) can be equally important in determining the economic impact and political outcome of a set of sanctions. The target country can either do nothing and accept the

\textsuperscript{20} Kaempher and Lowenburg (1988).

\textsuperscript{21} Here the theory of public choice is significant. See Kaempher and Lowenburg (1988).
costs as a sacrifice for its political behaviour, or restructure the economy to become less open or alternatively attempt to circumvent the measures (Galthung 1983: 33). The latter has the capacity to neutralise, reduce or even counter the impact of the measures imposed against it over time and in the absence of escalation.

If savage sanctions are imposed in pursuit of a major policy objectives with the idea of causing maximum economic damage to the economy of the target country, the target country will normally not have another interpretation, and will respond by trying to defend itself against the economic onslaught as a matter of survival. It will take extreme measures to become less dependent on the external sector in order to reduce and counter the impact of the measures. Very often this will imply becoming increasingly inward looking (a shift towards autarky), which in itself has high costs when compared to free trade. These costs can, however, be justified as a sacrifice in a hostile climate because the alternatives, i.e. a change in policy or increased vulnerability, may be perceived as bringing about even higher costs.

If, on the other hand, the sanctions introduced are interpreted by the target country as signal sanctions in pursuit of a minor/relative policy change, the target country could be expected to respond in a less extreme manner. It will then not be necessary to apply self imposed costs associated with inward looking policies as the target country's existence is not threatened. The disruptions caused by the sanctions are not intended to be severe. Rather, the target country will adapt to the signal sanctions by addressing the behavioural problem (policy objective) and/or by making the economy more export oriented to dilute the impact of the selective sanctions.

When the target country interprets the policy objectives as well as the scope and nature of sanctions incorrectly and responds accordingly, the consequences could cause additional and unnecessary costs for the target country. If signal sanctions are imposed by the sender country but the target country interprets them as being of a savage nature, the latter will erect defense mechanisms to protect itself from the foreign sector instead of adapting to them through increased international economic interaction. The result will be that the target country will suffer unnecessarily by its self-imposed economic isolation, whereas the sanctions were only intended to have a marginal impact. Under the circumstances the signal sanctions would be considered to have imposed a high cost on the target country when in fact such costs were largely self-imposed.
Alternatively, but more unlikely, if savage sanctions are imposed by the sender country but the target country interprets them as only signal sanctions, the target country will become increasingly vulnerable as the sanctions measures damage the economy, thereby reducing its ability to defend itself against interference in its foreign economic relations. This greater vulnerability will ultimately undermine the target country's ability to survive any protracted hostile relationship with the sender country as the latter's leverage to dictate its policy objectives will grow without increasing the actual cost of sanctions unduly.

2.5. Objectives of sanctions in the case of South Africa

As discussed above, it is of central importance to identify the relevant foreign policy objectives when analysing a particular sanctions episode as they strongly influence the scope and nature of the measures chosen. When considering the sanctions against South Africa, it will become clear in this study that the relevant measures were closer to the diplomacy spectrum than the war spectrum (see figure 2.1), even though there were participants in the sanctions debate that clearly intended the sanctions to be closer to the military spectrum. The divergent goals will become apparent in chapter 7 and evaluated in chapter 10.

The South African liberation movements saw the use of comprehensive and mandatory sanctions as a means to augment their armed struggle. The sanctions under review in this study are, however, limited to those actually imposed during the eighties by the major industrialised countries. The liberation movements tried to convince the international community that the policy of apartheid was in nature similar to an absolute foreign policy transgression which required savage sanctions to force the South African government to relinquish political control, thereby abandoning the universally objectionable policy of apartheid. There were many countries, ideologically linked^{22}, that also shared this opinion and in fact imposed measures they believed were necessary to realise this foreign policy objective, i.e. comprehensive or savage sanctions. However, many of these countries did not have the capacity to cause any considerable damage to South Africa as their economic interaction was limited.

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^{22} Most of the newly independent countries in Africa identified with a struggle against oppression. The Soviet Union and its allies were interested in countering the influence of the West in Africa.
It was realised that in order to apply any effective international pressure against South Africa, the major Western industrialised countries would have to become directly involved in the sanctions campaign against South Africa. However, these countries had their own peculiar relationships with and approach to South Africa regarding their economic interests as well as the problems with apartheid. The major industrialised countries did not all agree with the interpretation of the liberation movements that apartheid was a form of absolute universal transgression which threatened international peace. Most considered it to be a domestic problem which had to be solved locally by way of negotiation to ensure sustainable peace and economic development and, therefore, of relative rather than absolute importance. The major industrialised countries, however, did express concern that there should be a movement away from apartheid as it was contrary to emerging common international norms regarding racial discrimination. In addition to this, many of these countries could not condone South Africa's destabilising political and military tactics against its neighbours. On the other hand, as will be shown in chapter 5, the South African government had already meanwhile committed itself to abolish apartheid and to replace it with a more democratic dispensation, primarily because the process of economic development in South Africa had rendered its implementation impractical. As a result, the commitment to move away from apartheid coincided with the foreign policy objectives of the major industrialised countries at the time. These considerations largely explain the scope and nature of the sanctions applied against South Africa by the major industrialised countries during the latter half of the eighties.
CHAPTER 3

THE IMPACT OF ECONOMIC SANCTIONS IN GENERAL

3.1. Introduction

While the objectives of economic sanctions imposed by sender countries are to achieve certain political changes on the part of the target country, the means to pursue this is by way of deliberately imposing restrictions on the existing foreign economic transactions of the target country so that the latter suffers disproportionately large net costs. The imposition of economic sanctions, therefore, rests on the assumption that international economic interaction is beneficial to all the countries involved. The penalty takes the form of a loss of economic welfare reflected in lower income and higher prices as a result of the lower foreign trade, fewer technology transfers and less net capital flows than would have been the case without the imposition of sanctions. Although sanctions usually refer to all measures of withdrawal which include measures such as a reduction in aid transfers, tariff increases, the suspension of "most favoured nation treatment", the cancellation of double taxation treaties and preclusive buying (Baldwin 1985: 41), this study will look primarily at the impact of restrictions imposed on the flows of exports as well as the denial of beneficial foreign financial flows.

The purpose of this chapter is to outline the theoretical framework that underlies the use of sanctions measures to cause economic costs or penalties. Many of the basic beliefs regarding sanctions are derived from elementary international trade and finance theory which illustrates the benefits associated with international economic interaction, in contrast to autarky. When this interaction is reversed and restricted the negative impact of sanctions on the welfare or potential welfare of the target country is illustrated. The underlying theories can, of course, be extended to allow for more complex situations which approximate the real world such as multilateral trade and financial transactions that allow for alternative markets, and the temporary if not lasting substitution of products, technology and other productive resources to overcome at least some of the negative impact initially caused by the imposition of sanctions. Finally, the nature of the

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1 See Dornbusch (1980).
economic sanctions imposed against South Africa will briefly be highlighted, although they will only be discussed in chapter 8. The next chapter will deal critically with the elementary assumptions underlying the theory that justifies the use of sanctions as an instrument of foreign policy.

3.2. The mechanics of sanctions explained

Before explaining the mechanics of sanctions, it is useful to briefly make a distinction between the role of trade and capital in an economy. Trade is a flow concept. Therefore, in a static environment, a reduction in trade flows due to the impact of export sanctions, for example, can only have a once-off negative impact. Although there are multiplier repercussions throughout the economy, they too will only pass through once or with diminishing iterations. Unless there is an escalation of sanctions, the original reduction is diffused through the economy over time as production adapts to the new set of circumstances.

Capital, on the other hand, is a stock concept. As such any reduction (withdrawal) of the capital stock has a permanent impact on the economy. The reduction in capital stock means less productive capacity being available for utilisation in the production process. The effect of a permanent capital withdrawal has a continuous impact on the economy as its growth potential is reduced accordingly.

3.2.1. Elementary trade theory

Ever since Adam Smith and David Ricardo explained the economic benefits that flow from international trade when a country specialises in its comparative advantage, free trade has been promoted over protectionism as an ideal trade policy. Baldwin (1985), for example, sums the elementary theory of free trade up as follows:

"Foreign trade permits states to emphasise those patterns of production for which their productive resources are comparatively most suited to obtain through exchange of goods and services which they themselves can produce only at relatively great cost or cannot produce at all. By specialisation, nations obtain a larger output from their productive capacity than they would if they had to be self sufficient......The effect is simply one of increasing productivity." (Baldwin 1985: 222).
Accordingly, sanctions deliberately attempt to deny or reduce such beneficial interaction to a target country. It is the reduction of trade related benefits that are regarded as the costs of the sanctions. The impact of sanctions can be seen on welfare, demand and prices.

3.2.1.1. Diminished welfare

Cooper (1983: 25) uses the comparative static general equilibrium model to illustrate the negative impact of sanctions on welfare. This is illustrated in figure 3.1 below. The model makes use of production possibility and community indifference curves. It starts by assuming the target country to be operating under free trade, i.e. there is optimal resource allocation in both the sending and target countries. In other words, both countries experience the highest possible level of welfare under conditions of unfettered trade. Under these conditions the production point on the production possibility curve reflects the production of the assumed goods at the price which is determined by the international terms of free trade. At this terms of trade (ToT1), the country's new consumption level is found on an indifference curve which lies beyond the country's production possibility curve. This positive difference represents the benefits derived from free trade and thus improves the welfare of the country.

The imposition of sanctions attempts to force the country back to a state of autarky, or self sufficiency, thereby diminishing welfare from its free trade consumption point. When sanctions are imposed, the benefits from trade are reduced as the terms of trade of the country weakens, a shift from ToT1 to ToT2. This occurs because the price of exports falls as they have to be offered at a discount in order to remain competitive in an unfriendly environment. At the same time, the price of imports increases where sanctions apply as the restrictions have to be circumvented by offering a premium as an incentive to intermediate or third party suppliers. The movement towards autarky results in domestic production being restructured towards import competing products. Resources are moved along the production possibility curve (P1 to P2) from the originally assumed optimal allocation of exports and imports to less efficient import substituting industries. The new consumption point at point C2 along the less favourable sanctions affected terms of trade (ToT2) is closer to the production possibility curve on a lower indifference curve (I2). The movement of the consumption point to a lower
indifference curve implies a reduction in the welfare of the country while the smaller trade triangles indicate the reduction in international economic interaction. Accordingly, the difference in welfare between the normal (free trade) consumption point and the new lower (sanctions affected) consumption point illustrates the cost of the sanctions to the target country brought about by its trading partners as a result of its objectionable behaviour.

Figure 3.1: The static welfare loss due to sanctions

In a dynamic model the impact of the sanctions over time can be expected to reduce the productive capacity of the target country (the production possibility curve of the target country shifts towards the origin) with the result that the new consumption point along the weaker terms of trade is on an even lower indifference curve (Black and Cooper 1987: 7). The sanctions have, therefore, reduced the capacity to import not only by restricting exports but also over time by the reduction in the growth potential to generate exports.

3.2.1.2. Reduction in a component of demand

By deliberately reducing exports from a country, while all else remains unchanged, less foreign exchange earnings are generated. The imposition of sanctions has the effect of depressing the net foreign earnings which is a component of demand for that country. In the Keynesian model, however, the external sector is made up of exports and imports. The net effect of these two magnitudes will either be to increase or decrease the foreign demand component of the economy. When exports exceed imports, there is a net increase in demand for locally produced goods, while the contrary applies when imports exceed exports. Where a positive trade balance is established the greater foreign demand for locally produced goods will generate additional domestic supply or income as the benefits filter through the economy via the multiplier process. Greater access to markets for exports thus has far-reaching benefits for the economy under the assumed conditions.

The purpose of the introduction of sanctions is to reduce the free access of the target country to international markets. The reduction in export earnings is supposed to bring about less demand for the country’s products and, therefore, a reduction in production and income. The actual impact on the economy can be expected to be greater than the initial reduction in export earnings as a result of the negative multiplier process. The negative effect of the sanctions works throughout the economy with the initial and main impact being felt in export related industries.

2 The basic Keynesian model identifies consumption (C), investment (I), government spending (G) and net foreign earnings (X-Z) as elements of aggregate demand in an economy.
The effect of sanctions on the level of overall economic activity can be illustrated with the aid of figure 3.2. Prior to sanctions the economy is operating at an income level of Ye1. When total spending is reduced from TS1 to TS2 due to a reduction in net export earnings the new equilibrium level of income falls to Ye2. This reduction in income is considered to be the cost of sanctions.

Figure 3.2: Reduction in demand due to lower net foreign trade

Note: X denotes exports, Z imports which are assumed to remain unchanged and Ye denotes levels of equilibrium income.
3.2.1.3. Increase in the cost structure

Approached from the supply side, it follows that the imports of the target country are regarded as another country's comparative advantage. It is assumed that other countries are able to supply imports at relatively cheaper prices than is domestically possible. The result is that some domestic resources are not used in the production of these import competing goods but rather for producing exports with better returns. As a result, scarce resources are used more efficiently domestically and internationally as both countries specialise in the products reflecting their respective comparative advantages. These are then the benefits of specialisation associated with trade.

With the imposition of sanctions the target country has either to pay a premium for imports from elsewhere or produce previously imported products at higher costs domestically. It will have to mobilise scarce resources from efficient lines of production to less efficient ones. The effect of an increase in the domestic price for a certain good compared to an international world price can be analysed by using the partial equilibrium model of tariffs. It is clear from figure 3.3 that the domestic price (Ps) for imports and/or import competing products as a result of sanctions is higher than the international price (Pw). This is as a result of the restructuring and reallocation of resources induced by the sanctions (intervention). The higher price causes imports to fall from Q1Q4 to Q2Q3 together with a redistribution of income within the economy. There is a decrease in the consumer surplus (areas A,B,C,D) on the one hand, while the producer surplus (area A) increases, on the other. However, the production surplus gain is smaller than the consumer surplus loss. A certain portion of the increased costs go to those individuals that are willing to circumvent the sanctions in the form of a premium (area C). The overall loss is smaller if the intermediaries are all from the target country and the funds of the premium are used domestically. There is, however, a net loss known as a deadweight loss (areas B & D). If the intermediaries are all from the sender countries then the loss includes the intermediaries' income and the deadweight loss, making the impact of sanctions even more costly. The country as a whole loses as a result of the higher costs of imports resulting from sanctions.
To sum up, the trade theory provides a simple explanation of the mechanics of sanctions. A target country will be deprived of the benefits that would otherwise be associated with higher export earnings when sanctions are imposed, while its imports will become more expensive or unavailable. In the latter case the cost to produce import substitutes will be higher than the international price. Both these developments lead to reduced welfare for the target country when compared to a situation without sanctions.
3.2.2. Elementary finance theory

The elementary theory of international finance is based on the role that foreign funds can play in financing either an export-import gap, or a domestic investment-savings gap. The financing of either of these gaps allows the country to increase consumption and/or the capital stock of the country which usually translates into higher economic growth and more employment. This is particularly relevant for a developing country. Financial sanctions assume a denial or withdrawal of such foreign funds. The negative consequences are to be found in the downward economic adjustment process that will be required in the target economy to close the financing gaps in the absence of foreign funds.

This underlying theory, however, does not provide a comprehensive explanation for financial flows between countries. The causality between financial flows and behaviour in lending and borrowing countries is generally accepted as much more problematic to establish than in the case of foreign trade. Factors such as general confidence, security of capital, stability in profitability and predictability often play more important roles in accounting for the flow of funds, but are difficult to explain by way of a general theory or to quantify their importance in practice.

3.2.2.1. S = X-Z model

The most common model to illustrate the flow of foreign funds is the S = X-Z model. From this ex post identity it can be seen that the size of the trade balance (X-Z) is equal to net savings (S-I). When imports exceed exports, savings have to exceed investment for macro-economic equilibrium to be established in the economy. When net domestic savings are insufficient to finance a higher level of imports, then imports will have to be cut back. Alternatively, if domestic savings can be augmented by foreign savings (capital inflows), then the economy can afford the higher level of imports. This is generally regarded as particularly important for a developing country which often finds that its imports, usually in the form of capital goods, exceed its exports as it develops an infrastructure and expands its production base. Given limited supply conditions, foreign financial inflows are, therefore, demand driven in this model.

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3 The economy has to be deflated using both monetary and fiscal policy because the level of imports is a function of income.
The imposition of financial sanctions can either restrict new foreign loans, or include a withdrawal of funds as well. In terms of the above model, if no new funds are forthcoming, domestic savings have to be used to finance the trade deficit instead. Since a trade deficit is unsustainable without a net capital inflow, imports have to be reduced to levels the economy can afford, given that the level of exports remains unchanged. If most imports are in the form of capital goods, domestic investment in productive capacity will have to suffer which in turn will not only depress present economic growth owing to the contraction of the investment component of demand, but future growth is also negatively affected as the capacity to increase production is reduced.

The situation is, of course, exacerbated if existing loans have to continue to be repaid while no new loans are forthcoming. Domestic savings will now have to finance not only the negative trade balance, but also a negative outflow of capital as a result of foreign loan repayments. As such a situation cannot continue indefinitely, imports have to be further reduced by depressing the economy to such an extent that a surplus current account balance is established. Also here, the imposition of financial sanctions can be expected not only to have a short term but also a long term detrimental effect on the performance of the economy under these adverse circumstances.

It should be pointed out that the above model reflects an identity and not a functional equation. It is difficult to ascertain which side of the identity contains the driving forces and which one the residual response. The flows to and from a country are not purely balancing items. Funds can take the lead and flow to a country due to good investment opportunities, usually in the form of direct investment (such as the discovery of gold or oil). The response to such opportunities could initially be a trade deficit (higher imports) which will absorb the increased inflow of capital. This implies that a trade account deficit offsets the autonomous inflows on the capital account. Alternatively, funds can also flow to a country (in the form of loans) in response to a trade deficit if the borrowing country is regarded as creditworthy, namely, if the foreign creditors are confident that such non-

4 The aggregate Cobb Douglas production function \( Q_t = AK_{t-1}^\Lambda L^\Lambda \) is a useful way to illustrate how output capacity varies with changing factor inputs. The production function, representing a unique efficient combination of labour and capital at certain factor prices, determines the output potential of the economy. A reduction in the growth of capital stock (K) as a result of a slowdown in fixed investment (financing the foreign debt rather than capital good imports) with no compensatory improvements in factor efficiency or labour (L) inputs lead to a decline in output (Q) capacity (Jenkins 1986: 143).
autonomous (accommodating) loans will be serviced without difficulties in future. This can be seen as a neutral response. Funds can, however, flow out when there is a persistent trade deficit and the creditor country is of the opinion that the debtor country cannot meet its debt obligations, or if long term growth prospects are not regarded to be positive and which might influence its capacity to service its loans. In this case, the trade account has to adjust itself downwards, namely turn positive. Imports have to be reduced to a level that the country's exports alone can offset. Finally, funds can flow from a country not as a result of negative perceptions regarding the management of its economy but rather in pursuit of other more lucrative investments that have been identified outside the country.

The long-term flows to and from a country can be expected to reflect the stage of development of a country. Initially, when a country is at an early stage of development, it has insufficient savings to finance development, especially infrastructure. It can be expected to run a current account deficit which it will prefer to finance through its capital account. As the country develops it will be able to finance more of its own projects and will have less need for foreign funds. The next stage is characterised by exports exceeding imports with the result that the surplus on the current account finances net capital outflows, usually in the form of foreign investment projects. The direction of capital flows, therefore, does not automatically indicate the strength or weakness of an economy but often the stage of development. These flows have to be seen in the context of the need for foreign capital. Surplus funds (positive trade account) should not be bottled up in an economy which could prove inflationary, while a deficit should not be financed for any length of time through a capital inflow if the economy does not possess the ability to absorb the funds in a productive manner.

3.2.3. The implications of over-simplification

All the theories outlined above, although based on a two-country model, concentrate only on the adverse effects of sanctions on the economy of the target country. In these models it is assumed that the target country is one of the countries while the other country (sender) represents the rest of the world. The results are then fairly conclusive regarding the impact of sanctions. This may be the theoretical ideal, but is rarely even approximated in practice. The theory assumes that the rest of the world (representing
the other country(ies)) withdraws from trade with the target country\textsuperscript{5}. As was illustrated above, the imposition of sanctions not only has costs for the target country but for the other country(ies) as well, although they are likely to be less negatively affected individually and also in more divergent ways.

In an interdependent multipolar world economic environment\textsuperscript{6} the extent of interaction between the sending and target countries differs so that the costs borne by the senders differ individually. Not only do these costs have to be justified as worthwhile sacrifices to the citizens of the sender country in terms of the broader political objective of sanctions, but also that the sacrifices incurred by these countries will not be negated by alternative markets, products or finance which in turn can dilute the costs of the sanctions to the target country. The extent to which a country is willing to deny itself economic advantages through the use of sanctions to pursue foreign political objectives is dependent not only on its own economic conditions and internal socio-political dynamics, but also on those of the rest of the world. Therefore, the guiding principle in the case of sanctions as a foreign policy instrument will always be for a particular sanctioning country to use it as sparingly as possible, while achieving maximum adverse economic impact on the target country, which may, however, not always prove politically effective.

The conclusions suggested by these over-simplified theories of sanctions discussed above can also be quite misleading by ignoring the response of the target country to counter the adverse impact of the restrictive measures. The options to respond will be determined by the particular country's capacity to adjust to lost markets, reallocate resources, improvise with alternative technology and, of course, introduce retaliatory measures. Regarding the latter, for example, the adverse impact of severe export sanctions of a debtor country could largely be neutralised over the short to medium term by refusing to service its foreign debt.

\textsuperscript{5}There are numerous difficulties in reconciling this assumption with the theory. The following factors dilute the impact of this assumption: Evasion of sanctions (Green 1983), retaliation of target countries and the discovery of new sources of supply (Bayard et al 1983).

\textsuperscript{6}Gavin (1989: 17) concludes that due to the new era, the chief value of sanctions is as a foreign policy signal, not an economic lever. He continues to suggest that "it is time to move the debate beyond whether sanctions work in the traditional sense, to more realistically balance the long- and short-term costs of sanctions, and to achieve a better awareness of the collective interests of the nation in avoiding frivolous, misguided and counterproductive application of sanctions."
The important concomitant role that propaganda plays in the use of sanctions is also ignored by the general theory. In fact, perceived sacrifices resulting from sanctions in both the sender and target countries, rather than the actual impact experienced, can be decisive in achieving the stated political aims.

It is for these reasons that the underlying assumptions of the simplistic economic theory are often too restrictive in analysing the impact of particular sanctions, and why they have to be adapted and additional factors taken into account to arrive at a more realistic evaluation in specific cases. In practice, it is far from satisfactory to rely in general on the instrument of economic sanctions alone to achieve the desired foreign policy objective in a specific case.

3.3. Additional criteria for successful implementation of sanctions

The theories outlined above provide the rationale behind sanctions, concentrating primarily on the mechanisms through which the full positive external economic link is denied. These theories have, however, not stood up well to empirical evidence where the withdrawal of economic interaction has failed to bring about the desired or necessary economic penalties, primarily because they do not always adequately allow for the qualifying aspects of an interdependent and multipolar economic world in which sanctions function, on the one hand, and the specific economic characteristics of the target country, on the other, let alone the often peculiar trade-off between economic sacrifice and political aims. In some cases, limited sanctions have had far-reaching effects, while in others, comprehensive sanctions have not had the desired impact even though the target country experienced high economic costs. By looking at past experiences and deriving additional criteria it is possible to construct a much wider

7 See chapter 4.
8 These criteria have been established from a list of do's and don't's in the Hufbauer and Schott (1985) analysis.
9 South Africa significantly retarded the movement of goods and people between itself and the very small, highly dependent and land-locked Lesotho by "thoroughly checking all documentation". The result was the overthrow of the government of Leboa Jonathan in 1983.
10 Iraq did not withdraw from Kuwait as a result of the comprehensive mandatory sanctions imposed against it by the United Nations.
framework to analyse the use of sanctions as a foreign policy instrument rather than to simply rely in the main on the reversal of the benefits of pure trade theory, or on complex open macro-economics. When these criteria are met, the chances of successfully\(^{11}\) imposing the necessary costs increase, while the opposite also applies. These additional criteria will be particularly useful in analysing the environment within which sanctions against South Africa were imposed, so as to determine to what extent the measures were likely or could be expected to have an impact on South Africa.

3.3.1. General openness of the target country's economy

The size of the potential disruption that sanctions can cause is closely related to the aspect of the openness\(^ {12}\) of the sender and target economies respectively. In general, an economy is considered to be relatively open if the contribution of the foreign sector to the entire economy is large. Sanctions can be imposed more efficiently and are likely to have a greater impact when the foreign sector plays an important role in the production and consumption of the target country, than the other way round. The effect on a very open economy will be a great deal more negative than if the same sized disruption influences the economy of a country that is relatively less dependent on the foreign sector for its performance, i.e. a country that is not so open (Losman 1979: 14). Therefore, sanctions could best be imposed on a country that is fairly open by a country that is not that open. In this way the costs resulting from sanctions cannot be expected to be evenly distributed between the two countries. Severe costs can be experienced by the target country with the sender country experiencing much less of an impact\(^ {13}\). A sender country can justify the imposition of the sanctions to its citizens more easily if the costs it has to bear are limited, and those imposed on the target country are disproportionately much higher.

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11 Van Bergeijk (1989: 400) identifies a number of explanatory variables as determinants of the success and failure of economic sanctions. These include pre-trade linkages, stability of the target country's political situation and duration of the sanctions period.

12 As a first approach, openness is very often measured as total imports and exports as a percentage of GDP. A more accurate definition looks at the proportion of imports as a percentage of gross domestic expenditure and exports, as a percentage of gross domestic product (Mohr 1988: 7).

13 The costs are unlikely to be the same either in absolute or in relative terms to all sender countries.
3.3.2. Multilateral co-operation in imposing sanctions

The greater the number of countries that apply sanctions against the target country the more cost effective sanctions are likely to be. The main reason for this is to limit alternative sources of foreign supply and demand for that country, and to share the cost of sanctions among more sanctioning countries (Losman 1979: 14). Any country that does not adhere to the sanctions and continues interacting with the target country makes it possible to reduce the efficiency of the sanctions and, therefore, dilutes their potential impact on the target country. In addition to this, those countries that continue their economic relations do not suffer the cost associated with sanctions for the sender countries and may indeed gain and expand trade opportunities. In fact, in this way non-complying countries can gain economically at the expense of the sender country(ies) with little or negligible adverse effect on the target country. The target country can also use the non-complying countries as a platform to distribute its sanctioned products through relabeling or falsifying certificates of origin. The burden of sanctions is rarely spread evenly among the sender countries that want to bring about the same political change in the target country. For sanctions to be effective no country should ideally benefit at the expense of another applying sanctions.

It is for this reason that sanctions legislation often includes penalties for those countries that ignore sanctions and continue with their normal interaction with the target country. This then provides a disincentive to continue to interact with the target country. Such provisions, however, more often than not take the form of threats than real action because they could invite retaliation and raise the cost of the original sanctions to the sender country.

3.3.3. Asymmetric relationships in economic interaction

As was mentioned earlier in considering the pure theory of trade, the participation in international trade results in benefits for the countries involved. The main limiting economic factor to the imposition of full scale sanctions is accordingly the costs the sender country has to incur in order to attain the particular foreign political objective. The cost involved has to be justified to the citizens of the sender country. The less the cost to itself and the higher the cost to the target country, the more efficient such a
policy instrument may be expected to be. Therefore, it is prudent for a sender country to impose sanctions to the extent that the products and services it isolates will not have far-reaching consequences for its own economy as compared to those for the target economy.

High costs can be imposed on a target country with limited costs to the sender if the trade with the target country as a percentage of the sender country's total trade is relatively small so that any trade disruption will only have a negligible impact, while the same trade as a percentage of the target country's pre-sanctions level is large. The resultant disruption of such action will do greater potential damage to the target country. The sender country will, therefore, be inclined to carefully select the type of products which will disrupt its economy to a minimum and that of the target country proportionately much more. The imports it restricts from the target country will consist of those products on which it is not very dependent and which at the same time, make a significant contribution to the target country's export earnings. The supply elasticity of the sender country's relevant imports from the target country will have to be high. Similarly, the supply elasticity of the relevant imports from the sender country will have to be low for the target country. The exports that the sender country can be expected to restrict will consist of those products which are of limited significance to its export earnings, but which are of importance to the target country such as strategic goods or capital equipment (Losman 1979: 15).

3.3.4. Comprehensive vs selective sanctions

Sanctions that are imposed comprehensively have a greater chance of causing severe economic hardships for the target country as more of the benefits associated with open trade will be discontinued or reduced than is the case with selective sanctions. The greater the range of products subject to sanctions, the greater the reduction in trade and the more effective the implementation may be expected to be as the scope to circumvent the comprehensive measures is reduced.

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14 This means that there are alternative sources at similar prices and, therefore, the removal of the target country's supply will not have any major repercussions on the availability of the specific products for the sender.

15 With selective sanctions, much other limited trade still takes place. Unless each shipment is monitored, sanctioned products can be transhipped, whereas when all trade is restricted this ability to circumvent the measures is drastically reduced. Furthermore, if limited trade still occurs, loopholes can more easily be exploited.
When selective sanctions are imposed, costs are unlikely to be as high as in the case when comprehensive measures are applied. However, the imposition of limited measures brings with it the threat of escalation, implying that the selective measures are but a first step and will be expanded to become more acute, if the relevant political objectives are not met. The costs associated with the selective sanctions are then used as a base to illustrate what the further escalation of sanctions could cost the target country (Hufbauer and Schott 1985: 48). The more impressive the cost of selective sanctions, the more effective the threat of an escalation can be as the anticipated costs of the comprehensive measures will prove daunting.

Another factor associated with selective sanctions that makes them less effective in imposing costs on the target country is the problem of the multiple use of products. If the sanctions are selective and even limited to particular uses of certain products, they are much more difficult to apply16 because they can be traded under the auspices of the legitimate application but used for the prohibited purpose instead.

### 3.3.5. General vulnerability of the economy of the target country

A country can be regarded as vulnerable to economic sanctions not only when it has an open economy but also when its economic structure is not sufficiently diversified to adjust to the sanctions without severe repercussions. To ascertain the extent of vulnerability both the relative size of the general foreign exposure as well as the nature of the openness must be considered. The more concentrated the latter is in terms of specific goods and services traded the more vulnerable such a country can be expected to be in terms of sanctions if important products are restricted (Losman 1979: 19).

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16 An example is the case of computers. They can be used for personal, business and even military purposes.
The diversity of an economy and, therefore, its vulnerability to sanctions is further
determined by the concentration of its trading partners. The more dependent it is for its
imports and exports on only one or two countries, the more vulnerable it will be. The
more diversified its trading pattern in terms of foreign markets, the less the severity of
the adjustments can be expected to be in finding alternative sources of supply and
export markets.

Another area of external vulnerability that is particularly common among developing
countries is the size and nature of foreign involvement on the capital account. The type
of financial flows as well as the maturity structures of those flows are of importance.
Thus direct foreign investment is generally more committed than loans. It follows that a
country can be said to be vulnerable to sanctions when most of its foreign liabilities are
in the form of loans rather than equity, and this is exacerbated if such loans are of a
short-term nature with fluctuating rates of interest. This is because large capital flows
can be withdrawn at very short notice, thereby putting pressure on the currency if there
are insufficient reserves to meet the outflow. It can also put great pressure on the trade
account, particularly when a trade deficit was financed through short-term capital
inflows. Imports have to be contracted and exports promoted to balance the trade
account if no further capital flows are forthcoming, or forced into surplus through strict
monetary and fiscal policy if there is an outflow on the capital account of the balance of
payments.

Finally, it should be noticed that foreign economic dependence and/or openness as such
does not necessarily mean that the country is vulnerable to sanctions. Dependence may
be countered when the sender country is as dependent or even more dependent on trade
with the target country than the target country is on the sender. Under such
circumstances the cost of imposing sanctions may prove excessive to the sender
country(ies) compared with the foreign political aim to be achieved. In such cases the
potential sender country(ies) may very well decide to reduce its dependence on the
economy of the potential target country over time before contemplating the actual
imposition of sanctions. The cost of sanctions to such a sender country can, of course,
also be reduced by foreign compensation and the multilateral application of such
sanctions. The greater the foreign co-operation on sanctions against a target country the
more vulnerable the latter can be expected to be.
3.3.6. Mandatory vs voluntary sanctions

Not only are multilateral and comprehensive sanctions more effective than bilateral and selective sanctions in achieving foreign policy objectives, but they are even more so when the sanctions are mandatory rather than voluntary. It follows that since sanctions invariably mean that there are some costs to trading and financing parties in the sender countries, such measures can hardly be expected to be honoured on a voluntary basis. For sanctions to be effective they have to be mandatory and that involves penalties for non-compliance either through the domestic legal system or international institutional system.

3.4. Savage vs signal sanctions

The criteria outlined above identify several additional requirements that have to apply in order to ensure that sanctions are effective in the sense that they impose maximum economic costs on the target country but at minimum costs to the sender countries. The list also allows for the distinction between so-called savage sanctions when maximum sanctions are applied, on the one hand, and signal sanctions when selective sanctions are applied, on the other.

As was pointed out in chapter 2, the pursuit of a foreign policy objective has to be considered when evaluating the effect of any set of sanctions. The theory outlined suggested that for sanctions to be effective in forcing a change in the disapproved political behaviour of the target country, there has to be a maximum economic impact. But in practice, only selective sanctions may be required to achieve a given political goal depending on the nature of the latter. The same applies when the use of sanctions has to be judged in conjunction with other means of persuasion such as diplomacy, or with other unforeseen setbacks such as a market induced deterioration of a country’s terms of trade and the drying up of an international source of finance.

If sanctions are used to pursue less extreme, or relative rather than absolute political goals that are closer to the diplomacy axis shown in figure 2.1 in chapter 2, then maximum economic costs are not required because the target country’s discomfort threshold is also unlikely to be high. Signal sanctions which can be justified in terms of relative or soft political objectives can accordingly be used for this purpose. Signal
sanctions do not necessarily have to have a major economic impact. Some limited costs to the target country may be appropriate. Although the theoretical framework for economic sanctions may still be relevant (i.e., withdrawal of economic interaction imposes economic costs on the target country), the criteria derived from it and outlined above hardly remain relevant to evaluate the impact of such sanctions. In many such cases the sanctions are imposed to indicate resolve on a specific political issue and are designed purely as a symbolic gesture. No severe economic impact is desired, nor expected. The importance of the sanctions imposed may, of course, be inflated well beyond its economic importance for propaganda purposes but may, after closer analysis and understanding of the measures, reveal no major economic impact. The fact that sanctions have a penalising connotation may satisfy those groups/individuals within the sender or target country calling for such economic costs to be imposed. The reality of the measures might, however, do no or very limited economic damage. This is often the intention of such signal sanctions. At the same time they may, however, represent only the first step in a programme of escalating sanctions according to certain political conditions being met by the target country, in which case the signal sanctions can assume greater importance as there is still a threat to ultimately move to savage sanctions. It is, therefore, the likely potential cost to the economy rather than the current real costs of the signal sanctions that would have to be taken into consideration in arriving at a complete and objective assessment.

Signal sanctions can also be imposed for more serious transgressions if the sender country is fully aware of the fact that savage sanctions will have neither an economic nor a political impact on the target country. This is the case when the target country is not really vulnerable to such measures and is able to adjust to the disruptions without much cost, or where the cost to the sender country in attempting to impose significant economic damage on the target country is too high. Signal sanctions are often chosen to ensure that they are likely to cause the least cost to the sender country. However, because the discomfort threshold of the target country is unlikely to be reached by such sanctions their impact can at most only represent symbolic disapproval.
3.5. The nature of sanctions in the case of South Africa

As will be shown more fully in chapters 5 and 6, South Africa has an open economy and, therefore, its wellbeing is strongly influenced by international developments. Only as a first approach would it appear that South Africa is vulnerable to the imposition of sanctions. This impression may even be enhanced when bearing in mind that much of South Africa's trade is concentrated in a few products with a few trading partners. Furthermore, it could also be said that South Africa became heavily dependent on short-term foreign loans particularly during the early eighties.

There were always numerous political interests that wanted to impose comprehensive mandatory savage sanctions against South Africa in order to persuade it to abandon its policy of apartheid which was viewed as a severe political transgression in domestic, regional and international terms. Most of the countries that held these strong and absolute views, however, only had limited political and economic interaction with South Africa. As a result they did not have the capacity to influence developments in South Africa. They did not have the capacity to impose sanctions of any consequence against South Africa, nor would they experience any of the costs associated with such extreme measures for the same reason.

On the other hand, those countries with such influence and the capacity to impose severe sanctions either did not perceive the transgression to be absolute but rather to be of a relative nature, or these countries could not afford the costs of such measures themselves. Not only would savage sanctions against South Africa prove to be a costly exercise for the sender countries, but if successful, they might very well prove to be counterproductive in achieving the primary political objective of ensuring a stable and prosperous post-apartheid era for the country. These influential countries did not believe that the destruction of the South African economy was justified in bringing an end to apartheid and establishing a Western type democratic dispensation in South Africa. However, when domestic unrest in South Africa and cross-border acts of destabilisation became an international issue in the early eighties some limited use of sanctions to strengthen diplomatic efforts was increasingly being called for. Diplomacy alone had up until that point not brought about the desired political results despite various political reforms away from apartheid. As a result, mostly signal sanctions were imposed by the middle eighties. As will be shown later (chapters 8 and 9), within the
sanctions packages devised against South Africa there were some elements that exploited South Africa's vulnerability and, therefore, had the potential to impose some costs on the economy, but the set of measures was far from anything resembling savage sanctions.

An analysis of the sanctions imposed against South Africa by the important industrialised countries will reveal that the measures were never designed to cause severe economic hardship. Therefore, when analysing the economic impact of the sanctions above, one must bear in mind the particular nature and scope of the measures imposed. It follows that the poor performance of the economy, particularly during the eighties cannot simply be ascribed to the effect of the economic sanctions. The experience calls for a closer analysis of the other more important contributing factors to South Africa's poor economic performance, as well as the reasons for imposing only selective and non-escalating sanctions against the country.
CHAPTER 4

THE POLITICAL IMPORTANCE OF PROPAGANDA AND PERCEPTIONS

4.1. Introduction

The previous two chapters introduced the main analytical concepts and theoretical framework to justify the reason for and to judge the impact of sanctions under varying conditions. Chapter 2 discussed what sanctions were and described when, why and under what conditions they can be expected to be used to pursue certain political objectives. Chapter 3 explained the theoretical underpinnings for the use of sanctions to impose economic penalties against a target country. As the theory is only of limited value in providing the necessary framework to analyse sanctions as a foreign policy instrument in an interdependent multipolar world, additional criteria for their successful implementation were identified. From these approaches one can expect the experience of sanctions to vary considerably depending on the aims of sanctions, on the scope and nature of the particular measures imposed as well as the vulnerability of the particular target countries involved. The combinations that can be expected of these variables are many and therefore, diverse, and may even yield inconsistent results at times. The answer to the question as to whether a particular sanctions episode was successful will depend on the application of the modified and qualified theory to the particular circumstances at the time. The purpose of this chapter is, before proceeding to a systematic consideration of the South African experience with sanctions against the policy of apartheid, to highlight some of the factors that make the evaluation of a particular set of sanctions even more difficult than can be supposed. The sometimes diverse conclusions reached about the effectiveness of the same set of sanctions leave the impartial interpretation of the role of sanctions open in the knowledge that propaganda invariably forms an integral part of such political campaigns.
4.2. Formulating strategies and the role of propaganda

As stated earlier, sanctions are a foreign policy instrument used to pursue political objectives. When pursuing any such objective it is important to formulate a strategy (steps of action) to ensure the most effective manner to achieve the objective. Due to the uncertainty of the future there are, however, different scenarios associated with different strategies in achieving a particular goal. The choice of strategy in politics often depends on assuming the most favoured rather than realistic scenario particularly when pursuing a popular foreign policy objective.

The simplistic (naive) theory of sanctions suggests that the scope and nature of sanctions are directly linked to the magnitude of the foreign policy objective\(^1\). Therefore, the strategy chosen for a major policy objective would be the imposition of savage sanctions as they are expected to have the maximum impact. Likewise, the pursuit of minor policy changes could be achieved through the use of signal sanctions by having only a marginal impact on the economy of the target country. According to either of these approaches one would assume that if the actual outcome deviates from that anticipated or desired, the relevant strategy has to be reviewed and adjusted until the desired impact is eventually achieved. This is so simply because the direct link between sanctions and the economic penalty suffered is not always a strong one, and, therefore, predictable, even less so when it comes to the link between the economic impact and consequent change in the political behaviour of the target country. Sanctions are at best only a blunt instrument.

However, the fact is that sanctions can be refined through the use of propaganda. The achievement of the political objective is dependent on what the economic cost of sanctions is perceived to be, and here poor analysis can play an important propagandISTIC role. As was pointed out in chapter 3, because the calculation of the cost of sanctions is difficult, the interpretation of the costs can vary widely. When these costs deviate from what is desired, propaganda is often used to create the necessary perception that the desired impact has been achieved. It is, therefore, possible for a sender country to implement its strategy successfully, even though the actual impact of the sanctions

\(^1\) See chapter 2 in this regard.
deviates from the desired scenario. Propaganda is used to enhance the perception of the impact of sanctions to approach the desired impact. This strategy can deviate significantly from that suggested by the naive theory which takes the actual impact rather than the perceived impact into consideration.

The use of propaganda can, therefore, strongly influence the perceived impact of sanctions as it pertains to the particular political objectives sought. It is possible, for example, to impose selective sanctions which are not intended to cause severe hardships, but through the use of propaganda inflate their impact by ascribing all economic ailments of the economy at the time to the sanctions. Thereby the impression is created that the limited sanctions have had a significant impact and by implication that the costs of an escalation could be devastating. Under such circumstances there could develop a strong disincentive for the target country to continue its unacceptable behaviour, while the actual costs borne by the sender are negligible as may be expected from selective sanctions. Propaganda can also be used effectively by the target country to create the perception that costly sanctions are not effective, if it does not want to implement the political changes called for. As such, severe sanctions can be rendered useless if their true impact is neutralised in the target country by creating a perception of self reliance and/or blaming all adverse economic conditions on other exogenous factors. Therefore, an extremely important component of any sanctions debate is the perceptions that are created and conveyed by both the sender and target countries. It should be re-emphasised here that the ultimate purpose of the sanctions is to achieve a given political objective with the least economic cost to the sender country and greatest economic sacrifices (costs) to the target country. If the latter are perceived to be large or threaten to become larger, the desired political result can be achieved with fewer economic sanctions.

Propaganda is, therefore, an essential part of making economic sanctions as a policy instrument more or less effective, but it is often ignored in the theory underlying sanctions. The perceptions it creates and conveys are for the purpose of deceiving the relevant parties regarding the impact of sanctions. It is in the sender country's interest to create the impression that the sanctions, directly ascribed to the unacceptable political behaviour, have far-reaching consequences (for the target country's political consumption) with as little cost to themselves as possible (for domestic political consumption). On the other hand, if the target country does not perceive its behaviour to be objectionable and is keen to continue irrespective of the consequences, it will
convey the perception that the sanctions are insignificant, even though they might not be, and blame other factors for any poor economic performance experienced\(^2\). At the same time, it is also possible for the target country to assist in creating the perception of a significant impact, even though it might not be true, if the target country wants to mobilise its citizens to achieve the same stated objectives as the sender countries more rapidly.

The use of superficial economic analysis for propaganda purposes is made possible because of many analytical pitfalls in economic reasoning that may result in incomplete or misleading economic findings. Some of these shortcomings are discussed later under section 4.6 of this chapter. It first remains to have a closer look at the characteristic political cycle of sanctions in practice, the often inadequate formulation of the relevant political goals, and the absence of revising political goals in a dynamic environment.

4.3. Sanctions are rarely part of a carefully planned and comprehensive policy approach

The scope and nature of the sanctions chosen, attempt to reflect the resolve of the sender country in dealing with the political behaviour of a target country. Consequently, the set of sanctions should be ideally fine-tuned to match the specific foreign policy objective, i.e. attempt to impose sufficient costs to meet the perceived threshold of discomfort at which the target country is likely to change its behaviour.

The particular package of sanctions imposed, however, rarely matches the degree of perceived bad behaviour by the target country. Foreign policy making is not an exact science. It is in fact very rarely well planned and formulated to determine the exact level of sanctions that is needed to achieve specific foreign policy objectives. The result is that more often than not the sanctions are imposed on an \textit{ad hoc} basis, and not according to a long term strategy. The imposition is usually in response to a set of unacceptable current circumstances that develops to a critical point, and is charged with a great deal of emotion and rhetoric. The resulting high profile of the political issue and the mobilisation of public opinion against the unacceptable situation at the time, force policy

\(^2\) If there are negative repercussions, the target country can use its propaganda machine to exaggerate the impact of other non-sanction factors.
makers to respond in a manner simply to be seen to be doing something or dealing with the situation. The only condition would be that other avenues of persuasion such as diplomacy must first be considered and must be seen to have failed. The quick reaction (knee jerk) required to placate public opinion can overshadow the consideration of the normal long term relationship (positive or negative) that exists between the sender and target countries. In fact, the hasty imposition of sanctions may even disrupt an existing more confident strategy to achieve the particular foreign policy objective over a longer period, but which may now prove much less certain. On the one hand, the nature and scope of sanctions measures chosen may, in response to the \textit{ad hoc} developments at the time, prove to be more severe than is considered appropriate to realise the foreign policy objective. On the other hand, such sanctions might fall well short of what is required to promote the achievement of the foreign policy objective in which case the target country might easily decide to respond negatively instead.

The fairly general experience to introduce sanctions initially on an \textit{ad hoc} basis forms part of what Frey (1984: 118) refers to as the "international political cycle of sanctions". He suggests that sanctions measures are normally imposed in response to some behaviour by the target country perceived as unacceptable and which dominates the public interest at the time in the sender country. If this perceived transgression were allowed to continue unchecked such behaviour could act as a catalyst to mobilise further support for punitive measures. Due to the costs involved for the senders of sanctions, such calls for sanctions are initially ignored. If no changes in policy are forthcoming from the potential target country, however, an anti-target country momentum is generated and maintained until some measures, hastily perceived to be sufficient, are taken. The need and desire to be seen to be doing something is usually paramount under such circumstances with the result that the actual sanctions imposed might be quite different to what is needed to serve the broader policy objective effectively. The real consequences of the \textit{ad hoc} sanctions are rarely thought through at the time in view of the largely impulsive response to introduce them (Frey 1984: 116).

The next stage is that once the sanctions are in place and the emotion surrounding the issue has subsided, attempts are made at gauging their impact through sober analysis. In certain cases, the impact is different to what was desired, often because the original initiative was too ambitious for what could possibly be achieved politically at the time in the target country. Alternatively the response of the target country might be contrary to
what was wanted. Instead of causing dissent within the target community, the community might actually be more unified against the external interference and strengthened in its resolve to cope with the economic penalties, and continue with the unacceptable behaviour (Hufbauer and Schott 1985: 12).

The following stage is reached when it is realised that the particular set of sanctions was not the best policy to pursue and brings the use of sanctions as an appropriate instrument into question. In addition to this, the groups that carry the burden of sanctions in the sender countries have had time to lobby for an easing of the measures. In order not to lose face the government retains the measures but gradually increases the exemptions until the actual measures are neutralised, other things remaining the same. This then often limits the use of any additional sanctions even though the policy objectives have not been met. However, after this period of consolidation and reappraisal, it is also possible and even likely that sanctions will again be used by the same senders against the same target country should a new set of circumstances or crisis trigger a new series of ad hoc measures (Frey 1984: 116-119). The final characteristic of the political cycle of sanctions is that even though the efficacy of sanctions is questioned, the memory of policy makers is short so that sanctions continue to form part of the arsenal of foreign policy instruments and will again be used when politically appropriate.

4.4. The costs of sanctions are not always reconcilable with the political aims

One of the consequences of the ad hoc imposition of sanctions is that they tend to blur the true broader foreign policy objectives sought. The emotion and rhetoric that surround the introduction of ad hoc sanctions tend to give publicity to the more extreme approaches to the objectionable behaviour of the target country at the time, thereby diverting attention away from what a more balanced approach should have been. As a result there is no clear or true operational norm against which the impact can be measured.

One of the prerequisites for sanctions to be effective is that they have reasonable widespread support. To gain this support the different parties with different economic interests have to agree upon a common goal. In the rhetoric surrounding the imposition of sanctions, numerous goals that express the position of the various groups on the issue, are normally highlighted. This often leads to much confusion on what is really intended.
It is difficult at the time and even afterwards to differentiate between the peripheral consensus making goals, and the true foreign policy goal originally intended before the sanctions were considered. The poor and incomplete articulation of the main goals has the result of inviting more than one evaluation of the effectiveness of the set of sanctions as a foreign policy instrument.

The goals of sanctions are even more confusing when it is appreciated that each sanctions episode has a direct (economic) as well as an indirect (political) goal. The essence of the political goal can become less important if the economic goal becomes an end in itself. This happens when the impact of sanctions is measured solely against the economic goal, rather than the ultimate political one. The economic goal of sanctions, perceived to be necessary for the political goal to be reached, is often pursued with great intensity and publicity while ignoring equal, if not more important developments on the political front. This often changes the initial political goals, or puts them in a new perspective.

The fact that there are different interpretations regarding the success or lack of success of sanctions of different episodes, and even in the case of the same sanctions episode, illustrates the problem of identifying the relevant foreign policy goal against which the sanctions (if any) are to be judged. In the case of Rhodesia, for example, the imposition of sanctions was an immediate response to the UDI. The main purpose was to persuade the Rhodesia government, without going to war, not to continue with the UDI and gain independence as a minority government (Renwick 1981: 25). According to Wilson, his government would, with sanctions, restore legality in Rhodesia "within a matter of weeks rather than months". This did not materialise immediately and independence was granted only 15 years later. At the time of their imposition, the sanctions were a response to the British government's lack of success in using normal diplomatic channels, and their frustration at the rejection of their wishes by the Smith government. However, 15 years later, the installation of a black majority government was considered to be the result of a successful sanctions episode.

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The installation of a black majority government in Rhodesia vindicated the claims, made by numerous scholars\(^4\), that sanctions are effective, even though they "worked" slowly, because their ultimate goal was achieved. However, it can be argued that the initial goal of sanctions was to reverse the decision of the Rhodesian government and to bring about black majority rule within the short to medium term, without the use of military force. Because this did not materialise the liberation movements had to change their approach and consequently resorted to a guerrilla war against the Rhodesian government. It could arguably even be concluded that the military option was exercised because sanctions had failed. In any case, it meant that the goals of sanctions had in fact changed. No longer were they a substitute for war, but rather an augmentation to the guerrilla war efforts, even though none of the senders of sanctions was directly involved. Therefore, the conclusion that sanctions were effective in their own right in bringing about a transfer of power should be interpreted in a much broader perspective. As a substitute for war sanctions had failed but they could be considered to have been helpful in weakening the state to make the guerrilla war more effective in bringing about the transfer of power from the white minority to a black majority government.

4.5. The political objectives often change in a dynamic environment

Although the above experience over 15 years can serve as an example of a dynamic environment in which original foreign policy goals change, the difficulty to link the scope and nature of sanctions to a specific foreign policy goal is enhanced when the environment is more dynamic. The environment and so also the political goal may change abruptly due to an exogenous or unforeseen variable. Both the behaviour that extracted sanctions in the first place as well as the foreign policy objective that was pursued at the time might be seen from a different perspective by the sender countries as a result of major changes in the world economic and political climate. For example, the change in the international world order after 1989 allowed for a totally different environment within which to decide foreign policy goals and instruments. With the Cold War no longer dominating foreign policy many foreign policy objectives had to be

\(^4\) Numerous scholars including Baldwin (1985), Hanlon (1990) and Schmidt (1988) acknowledge the fact that sanctions were not immediately effective but nevertheless conclude that they were successful as their ultimate goal was achieved. Strack (1978) and Renwick (1981) acknowledge the contribution of sanctions but not as determining the outcome.
reviewed and reassessed in terms of the new international environment. Similarly the economic collapse of most of sub-Saharan Africa during the latter half of the eighties might also call for a review of the further use of sanctions where South Africa's modern and dominant economy in the region is suddenly seen as the solution to a new international problem.

The factors mentioned above that complicate any evaluation of sanctions also allow for the manipulation of results to create and convey the perceptions that the various players feel are necessary to cover up their failures, or to achieve their goals that may not remain constant for long. There are in addition, also inherent shortcomings in economic analysis that allow unqualified and simplistic conclusions about the economic impact of sanctions to be exploited by policy makers. The next section will identify some of the common problems associated with economic analysis, particularly in this respect.

4.6. General shortcomings of economic analysis

There are certain common mistakes that are often made in economic analysis which tend to convey false impressions. These errors can either arise due to ignorance or alternatively they are conveyed to provide deliberately misleading results. The latter is true when the intention is to prove a specific point that is in the interest of a particular participant in the political debate about sanctions. The conclusion reached from such an analysis appears viable and credible especially if it corresponds to a result expected from the theory of sanctions with its oversimplified and incomplete assumptions. The result cannot easily be criticised, other than being misleadingly simplistic, in which case the result is likely to go unquestioned. The impact of other and often more relevant factors are not considered at all. The conclusion reached might, therefore, not be a true reflection of the circumstance analysed.

5 See for example Robinson et al (1962) and Heilbronner and Throow (1978), but without specific reference to the issue of sanctions.
4.6.1. **The *ceteris paribus* assumption**

The assessment of the economic impact of sanctions is based on comparing actual developments before and after sanctions were imposed. Therefore, reality with sanctions is compared to a "realistic expectation" of what would have happened without sanctions. The economic impact of sanctions is usually determined by comparing an extrapolation of a trend reflecting the pre-sanctions levels of economic interaction and performance to the actual post sanctions level of economic performance. The difference is then claimed to be the effect of sanctions. The validity of such an analysis is, however, dependent on the *ceteris paribus* assumption, i.e. that the set of circumstances and trends in economic interaction prior to imposition of sanctions will continue to apply in a similar fashion for the duration of the period being analysed. This assumption is likely to be unrealistic, however, particularly in a dynamic political and economic environment.

The set of circumstances that prevails prior to sanctions often refers to abnormal or crisis periods which make it non-sustainable. If this situation serves as the framework for the trend that is extrapolated and compared to reality, then a false impression of the impact of sanctions would be given. An example of this is comparing the pre-sanctions level of foreign investment in South Africa to the level of investment in the sanctions environment. It assumes that the levels reached in 1984/1985 would have remained the same in the absence of sanctions. When the capital outflow that has occurred since that period is compared to the extrapolation of the 1984/85 inflow then it would naturally but erroneously appear that the sanctions had a major impact on South Africa's foreign capital flows. In fact, besides sanctions, there were many other important developments, both in the domestic economy and internationally in financial markets, that influenced the investment climate in South Africa and the availability of commercial bank loan funds to developing countries at the time.

In practice, there is a tendency to search for as much evidence as possible to support the linkage between sanctions and any economic hardships that the target country might be experiencing at the time. The impact of sanctions is consequently highlighted through the use of propaganda at the expense of other equally or even more important determining factors. This is particularly true when the target country is exposed to an ever changing international economic environment. By ignoring such other forces, the analysis can either make the impact of sanctions seem worse or alternatively hide the true impact.
4.6.2. **If one thing precedes another then the first is the cause of the second**

The problem of causality is well known in economic analysis. According to the theory of sanctions one would expect poor economic performance after the imposition of sanctions. Therefore, if the economy does perform poorly after the imposition of sanctions it is automatically assumed that sanctions were responsible. Other factors that might also cause poor economic performance are implicitly assumed as of lesser importance in the sanctions debate. These factors, if taken into account, might very well reflect a contradictory causality. It is indeed more likely that a situation could occur where the poor economic performance is due to an international recession that is so severe that the socio-political system comes under pressure. As a result the authorities may have to resort to disapproving measures to ensure order and stability. Therefore, when sanctions are imposed in response to the harsh tactics, the poor economic conditions that are visibly experienced reflect the impact of the severe recession rather than that of sanctions.

4.6.3. **If things happened in a certain way in the past, they will happen that way again**

A review of previous sanctions episodes can provide a useful background as to how sanctions worked elsewhere before and what they achieved under specific circumstances. As was stated in chapter 3, it is the study of these episodes that has allowed a set of additional criteria to be developed against which the impact of new sanctions experiences can be evaluated more realistically. The main finding is, however, that each episode provides an almost unique mix of circumstances that accounted for the particular economic impact and that influenced the policy approach at the time. A specific mix is unlikely to be repeated again. The broader economic and political environment within which sanctions are imposed strongly influences the behaviour of both sender and target countries. Not only are both the scope and nature of the sanctions chosen by the sender country dependent on the vulnerability of the target country, but the response of the target country may also be expected to be different even where the economic impact is more or less the same as in other experiences. In fact, the record of using economic sanctions to achieve socio-political aims is disappointing to say the least.
4.6.4. The error of wishful thinking

The political propaganda which surrounds the imposition of sanctions is often a reflection of the need to show that the policy chosen was successful or not. It is important for sender countries to establish a direct link between sanctions and economic and political developments in the target country. Their position on the foreign policy issue is vindicated if this can be established, rightly or wrongly. There is a natural bias to justify their policy approach by gathering only evidence that supports their interest in the issue. This is just as true for the target country that might not want to recognise the true impact of sanctions and, thereby, wish to avoid a necessary but unpopular local response to the sanctions. In the political debate around sanctions where a particular policy has to be justified and supported, a balanced analysis of the true position is often undesirable or conveniently ignored in favour of wishful thinking.

This chapter argued that the actual impact of sanctions, both from a political and an economic perspective, is rarely as important as the perception of the impact that is created. The role of propaganda is, therefore, of paramount importance in creating this perception at the time. The ability to generate a perceived impact is made all the more easier because of the difficulties surrounding economic analysis of the actual events in general. The contribution of propaganda and the pitfalls in economic analysis have to be borne in mind when evaluating any sanctions episode, and an attempt should be made to look beyond the political motives around every episode to place the economic impact as well as the political impact of sanctions in perspective before any judgment is formulated.

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6 Gavin (1989: 2) points out that "even if the desired result does occur, it may not be caused by the sanctions. In such cases there is a correlation between the sanctions and the desired result, but the causative role of the sanctions is uncertain. In political practice that logical problem is neatly finessed by policymakers who quickly declare the success of the sanctions."
PART III

APARTHEID, ECONOMIC SETBACKS AND THE ESCALATION OF SANCTIONS
CHAPTER 5

THE EROSION OF APARTHEID AND THE NEED FOR REFORM

5.1. Introduction

Apartheid involved the separate administration and development of people along racial lines. The practice of apartheid had a long history in South Africa, but became official policy only after 1948 when the National Party came into power. Their reign lasted for almost half a century. Initially, the importance of the apartheid policy to the international community was negligible as South Africa had previously followed and practiced international developments in this regard. However, after World War II, this policy would gradually become more unacceptable and increasingly pose a problem for foreign relations with South Africa as its domestic policy was moving contrary to the changing world political trend towards racial integration. The emerging post-war international environment was to be characterised by

* decolonisation
* racial integration, particularly in the USA
* the Cold War, led by the USA in the West, and
* the longest period of rapid economic progress.

These new world trends were to determine South Africa's foreign relations and have a major impact on domestic economic conditions and political developments.

This chapter will show that, for some two decades after 1948, South Africa experienced rapid industrialisation that steadily eroded the policy of apartheid. At the same time the country's population pattern was shifting in favour of a black urban majority. The response of the South African government to this changing socio-economic environment was to gradually adjust and reform the system with a view to arriving at a more acceptable political dispensation. However, because South Africa could not base a new dispensation according to a generally acceptable and successful model, the outcome was

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1 Lipton (1985). Also see Natrass and Ardington (1990) for an exposition of the development and features of the political economy of South Africa.
bound to be difficult and uncertain. It follows that because the government was committed to the removal of apartheid, its abolition was no longer considered to be an absolute goal of any sanctions policy but rather a relative one\(^2\). By the end of the seventies, it was already official policy to adapt the system of apartheid to reflect the country’s changed economic realities, and to prepare the way for a new political dispensation that would promote rather than constrain further economic progress\(^3\). The major issue was increasingly becoming what should take the place of apartheid, and how to achieve it with the least socio-economic disruptions.

It will be argued that the socio-political tensions that resulted from apartheid erupted and were exploited in times of economic recession with a growing negative impact on investor confidence. As a result, the ability of apartheid to manage the negative repercussions of economic downswings was rapidly being undermined as was the ability of the government to deal with the changing socio-economic and political developments in South Africa. This was all taking place in a less accommodating world climate. It is the period up to the early eighties of relatively high economic growth, and the prospect of even greater prosperity, that will briefly be reviewed in this chapter. The next two chapters deal with the unexpected subsequent drastic deterioration in South Africa’s economic well-being that introduced a crucial decade of continued economic and political crises, including the escalation of foreign sanctions, a temporary slowdown in local constitutional reform and eventually the official abolition of apartheid.

### 5.2. Racial economic policies before apartheid

The coming to power of the National Party in 1948 was by no means the start of discriminatory practices against people of colour in South Africa\(^4\). Since 1652, with the arrival of Jan van Riebeeck, discriminatory practices were instituted against many of the local inhabitants. There was some small scale farming that responded to emerging export

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\(^2\) The terms absolute and relative were identified in chapter 3 as being important in identifying the goals of sanctions.

\(^3\) This chapter relies heavily on the work of Lipton (1985) and Kane-Berman (1990) to show how apartheid was undermined and gradually eroded as a result of economic prosperity and urbanisation.

\(^4\) See Davenport (1989) for a history of discriminatory practices in South Africa prior to the 1900s.
opportunities\(^5\) which required cheap local labour. This cheap labour was partly supplied by the indigenous population over and above the use of slaves. However, the discriminatory measures did not affect the bulk of the black population. As the white settlers moved further from the Cape, either to escape the controls of the foreign administration or to support the colonial powers in expanding its area of influence, contact was increasingly made with larger groups of the black population in the country. After various conflicts, the whites eventually dominated the country politically in both the colonies and Boer Republics.

Even though there had been local wars (Kaffir wars) and other periods of conflict (mostly over grazing land) between whites and blacks prior to the second half of the last century, contact between the races remained limited. Although discriminatory practices existed, there was no need to enforce segregation on any considerable scale as the various groups concentrated together of their own accord in different rural areas. The reason for limited socio-economic interaction was primarily because South Africa, except for limited commercial farming, had a subsistence economy which required little, if any surplus labour. The early stages of discrimination could not have had much economic impact because of the very limited scope of the contact and the complementary nature thereof.

The economy was largely undeveloped, without any major internal concentrations of economic activity until the discovery of diamonds in 1867 and later gold in 1886\(^6\). These mining developments allowed for the transition into a modern economy as the country, which comprised four separate states at the time, joined the world economy on a large scale and sustained basis. Vast sums of money from investors flowed into the country in pursuit of new lucrative opportunities providing the necessary capital to finance the development of mines, railways and cities\(^7\). There was also suddenly a large and

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5 The establishment of the halfway station at the Cape to serve the trade routes between Europe and the East provided markets for fresh produce.


7 See Frankel (1938).
sustained demand for both skilled and unskilled labour with the result that a heterogeneous labour force came into being. The need for relatively cheap labour\(^8\) to extract the minerals led to an increase in the use of black labour through an efficient recruitment system\(^9\).

With the formation of the Union of South Africa (1910) following the Anglo-Boer War, a greater emphasis was placed on white politics. The amalgamation of the four regions into one sovereign state brought with it diverse political\(^10\) and economic\(^11\) interests. One of the major concerns at the time was that of the economic well being of many white inhabitants (the so called poor white problem\(^12\)). As a result, increasing attention was paid by politicians and outsiders to how this problem could best be addressed. The periods of unrest over the next fifty years reflected white workers’ grievances\(^13\). Indeed, the increasing involvement of the blacks in the formal economy seemed to be

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\(^8\) This became increasingly important as costs had to be controlled because the price of gold was fixed for long periods under the world's fixed exchange rate system. Furthermore, as the process of deep level mining became possible, it also required cheap labour (Davenport 1989: 518). The structure of relatively low wages for unskilled work with higher wages for the skilled labour, similar to the pattern in agriculture, was established and would also be reflected in the later process of industrial development.

\(^9\) The labour force was made up primarily of blacks hired through their chiefs on short-term contracts. The flow of migrant or “temporary workers” to the major urban areas was strictly controlled. The workers were accommodated in single quarters provided in the compounds on the outskirts of the various developing urban areas (Davenport 1989: 517-520). These compounds were to form the start of the permanent settlement of blacks in what was considered to be white areas, while their labour reflected the start of increasing economic interdependence.

\(^10\) All four regions had a discriminatory basis, viz. the Republics' doctrine of "no equality between black and white in church or state" and the British principle of "equal rights for all civilised men" (Lipton 1985: 17).

\(^11\) The passage of the 1913, and later the 1936 Land Acts, was a continuation of the policies that had prevailed in the four regions prior to the formation of the Union. These Acts reserved 87 percent of the land for whites and effectively shut out black ownership, trading or any other major economic activity in the "white" areas (Lipton 1985: 18).

\(^12\) A study by the Carnegie Foundation (1929-1932) looked at "The Poor White Problem in South Africa" and ways to address this problem.

\(^13\) The 1922 strike revolved around the possible lifting of the job colour bar while the depression years were met with the "civilised labour policy" deliberately favouring white employment at the expense of blacks (Lipton 1985: 113, Davenport 1989: 525).
exacerbating the poor white problem\textsuperscript{14}. The policy of promoting industrialisation\textsuperscript{15} in the twenties and early thirties was not only to make the country more self reliant and to diversify the economy, but also to provide work for the poor whites rather than blacks\textsuperscript{16}. This promotion of manufacturing industry, together with further industrialisation during the war years, provided a significant boost to the economy over the next two decades and greatly resolved the so-called poor white problem\textsuperscript{17}.

One of the consequences of the growing economy with an expanding industrial component, was an increasing shortage of skilled workers. Blacks were becoming an important factor in the formal economy, not only supplying unskilled labour, but also in providing additional demand for consumer goods. As a result, there were growing calls\textsuperscript{18} for the removal of the colour bar and pass laws, which restricted both the horizontal as well as vertical mobility of black labour and their purchasing power.

\textsuperscript{14} The fall in the gold price in 1921 brought about pressure to cut costs in the mining industry. As a result, the Chamber of Mines increased the ratio of black workers. The withdrawal of the Status Quo Agreement led to the 1922 strike, which had to be put down by introducing martial law (Lipton 1985: 113).

\textsuperscript{15} The best known stimulus came from the establishment of ISCOR in 1928. Further stimulus was provided by the protection of local industries through a range of tariffs which up until then had been purely for revenue generating purposes.

\textsuperscript{16} Although the job colour bar was not introduced into manufacturing until the fifties the basis for excluding blacks from certain skilled jobs had been entrenched by the white unions and government in legislative packages between 1922 and 1925 (Lipton 1985: 140).

\textsuperscript{17} See Steenekamp (1989).

\textsuperscript{18} Lipton summarizes the gist of the van Eck, Smit and Fagan Report (1941) as follows: "Industrialisation, and the poverty of the crowded reserves, meant that increasing and permanent African urbanisation was inevitable, and that industrialisation required that African workers should be stabilised with their families in towns and provided with the improved education, pay and prospects of promotion that would turn them into the committed, motivated workforce required by modern industry as well as providing an expanding market for consumer goods (Lipton 1985: 21)."
Table 5.1: Urbanisation according to number (in millions) and percentage of various population groups, 1911-1951

<table>
<thead>
<tr>
<th>Census Year</th>
<th>1911</th>
<th>1936</th>
<th>1951</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>number (percent)</td>
<td>number (percent)</td>
<td>number (percent)</td>
</tr>
<tr>
<td>White</td>
<td>0.7</td>
<td>51.6</td>
<td>1.3</td>
</tr>
<tr>
<td>Africans</td>
<td>0.5</td>
<td>12.6</td>
<td>1.1</td>
</tr>
<tr>
<td>Coloureds</td>
<td>0.3</td>
<td>46.7</td>
<td>0.4</td>
</tr>
<tr>
<td>Indians</td>
<td>0.07</td>
<td>43.2</td>
<td>0.2</td>
</tr>
<tr>
<td>Total/average percentage</td>
<td>1.5</td>
<td>24.7</td>
<td>3.0</td>
</tr>
</tbody>
</table>


Although the blacks had to remain in their demarcated areas (townships) surrounding the white urban centres, they became increasingly part of the urban environment, both in absolute and relative terms (see table 5.1). In 1911 and 1936 there were fewer blacks in urban areas than whites, even though the urbanised proportion was increasing. By 1951 not only had the proportion of the total urbanised population tripled since 1911 but the physical number of blacks had increased fivefold, outnumbering the whites in urban areas for the first time. This increased urbanisation was a reflection of growing economic integration and interdependence between blacks and whites. It was increasingly being realised that efforts would have to be made to change the government's socio-economic policies to cater for a much wider population. During the forties attempts were made to abolish the pass laws (1942) and even recognise black trade unions (1947). However, the South African white community was wary of the consequences of economic integration. They were not ready to accept the gradual erosion of racial segregation. As a result, in 1948, the National Party came into power and institutionalised racial segregation, effectively rejecting and even reversing some of the efforts for more liberal policies to accommodate the interests and aspirations of the black community within "white" South Africa.
5.3. Apartheid and separate development as official policies

The victory of the National Party in 1948 had been unexpected. The National Party had successfully canvassed on a ticket to reject the recommendations of the Fagan Report. The Sauer Report, drafted for the National Party as an apartheid policy with electoral appeal, had proposed a return to the segregationist Stallard principle where it was expected that,

- the blacks should only be in white areas on a temporary basis, and for a limited purpose;
- that they should retain their links with the reserves to which they must eventually return; and
- that the means of enforcing this was by stricter influx control and the extension of the migrant labour system (Lipton 1985: 22).

However, this would work against the social forces that had been released by the process of industrialisation and modernisation. Consequently the ruling National Party drew sharper lines between whites on the one hand, and all non-whites (coloureds, Asians and blacks), on the other, and resorted to more legal intervention to enforce this.

Thus emerged the policy of apartheid, which can be defined as a combination of the following four features;

- hierarchical ordering of the political, economic and social structures on the basis of race;
- discrimination according to the hierarchy;
- segregation separating the elements within the hierarchy; and
- legislation and institutionalisation (Lipton 1985: 14).

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19 The 1922 Stallard Commission laid down the principle that an African should be in the towns to "minister to the needs of the white man and should depart therefrom when he ceases to minister" (Lipton 1985: 18).


21 The policy of separate development is always conveyed as being synonymous with apartheid. Although it contains many elements of apartheid, it should be seen as a separate policy pursued after 1961 by Dr. Verwoerd.
Although the blacks had been dissatisfied with their treatment by different governments before the National Party came into power, it was with the imposition of these strict restrictions\(^{22}\) that they increased their resistance to the government. There were, however, only limited demonstrations against these measures initially.

### Table 5.2: Real economic growth rates, 1947-1960

<table>
<thead>
<tr>
<th>Year</th>
<th>Percentage change in GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>1947</td>
<td>5.4</td>
</tr>
<tr>
<td>1948</td>
<td>8.6</td>
</tr>
<tr>
<td>1949</td>
<td>2.4</td>
</tr>
<tr>
<td>1950</td>
<td>5.7</td>
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<td>1951</td>
<td>8.5</td>
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<tr>
<td>1952</td>
<td>2.7</td>
</tr>
<tr>
<td>1953</td>
<td>5.2</td>
</tr>
<tr>
<td>1954</td>
<td>6.7</td>
</tr>
<tr>
<td>1955</td>
<td>5.5</td>
</tr>
<tr>
<td>1956</td>
<td>5.2</td>
</tr>
<tr>
<td>1957</td>
<td>4.4</td>
</tr>
<tr>
<td>1958</td>
<td>2.2</td>
</tr>
<tr>
<td>1959</td>
<td>3.5</td>
</tr>
<tr>
<td>1960</td>
<td>3.4</td>
</tr>
<tr>
<td>Average (1947-1960)</td>
<td>5.0</td>
</tr>
</tbody>
</table>

*Source: South African Reserve Bank (1991: 12)*

The period immediately after World War II and during most of the fifties was characterised internationally by high, sustained economic growth. South Africa also experienced a period of high and sustained growth averaging 5 percent until 1960 (see table 5.2). The mining industry attracted vast sums of foreign investment to develop the new gold fields in the Orange Free State (OFS). These developments stimulated the

\(^{22}\) The Bantu Authorities Act (1951) which attempted to restructure the government of the reserves on more traditional lines, became a system whereby chiefs enforced government policy (Davenport 1989: 383).
economy and boosted export earnings. The manufacturing sector also thrived and attracted direct foreign investment to take advantage of the growing market for consumer goods, and the policy to protect local industry. Towards the end of the fifties, however, the economy went into recession.

The deflationary policies that accompanied the recession had far-reaching socio-economic effects on the increasing urban black population which could not and did not want to return to any rural reservation. By 1960, the size of the urban black community had increased to 3.5 million people, an increase of 50 percent over 1951 and representing nearly half the country's total urbanised population of 46.7 percent (see table 5.3). The downturn in the economy, together with increasing dissatisfaction at the discriminatory measures and negligible political rights, provided a potentially volatile climate.

Table 5.3: Urbanisation according to number (in millions) and percentage of various population groups, 1951-1960

<table>
<thead>
<tr>
<th>Census Year</th>
<th>1951</th>
<th>1960</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>number (percent)</td>
<td>number (percent)</td>
</tr>
<tr>
<td>White</td>
<td>2.1 (78.4)</td>
<td>2.6 (83.6)</td>
</tr>
<tr>
<td>Africans</td>
<td>2.3 (27.2)</td>
<td>3.5 (31.8)</td>
</tr>
<tr>
<td>Coloureds</td>
<td>0.7 (64.7)</td>
<td>1.0 (68.3)</td>
</tr>
<tr>
<td>Indians</td>
<td>0.3 (77.5)</td>
<td>0.4 (83.2)</td>
</tr>
<tr>
<td>Total/Average</td>
<td>5.4 (42.6)</td>
<td>7.5 (46.7)</td>
</tr>
</tbody>
</table>


The tension broke with the Sharpeville shootings. The apartheid policies had cushioned the whites from the poor economic conditions associated with cyclical downturns, while ignoring the impact on the black community. However, in 1960 the black urban population was already sizable enough for some members to express their discontent by way of demonstrations. The most dramatic was accompanied by the Sharpeville shootings when the police killed 69 and injured 180 unarmed blacks (mostly women) who were protesting against the pass laws.
An international outcry followed the Sharpeville shootings. In contrast to the
government's deliberate implementation of apartheid, the international community had
generally been moving away from policies of racial discrimination and suppression.
The world trend was developing towards socio-economic integration and reconciliation
amongst races. The enforcement of apartheid was a blatant contradiction of new
international socio-political sentiments during an era when the former colonies of the
European empires were being given their independence. Due to their own experience
in opposing colonialism and oppression, all these newly independent states sided with
the black disenfranchised in South Africa. They supported measures against the South
African government such as the call for sanctions by Albert Luthuli, then president of
the African National Congress (ANC). These newly independent countries increasingly
became an outspoken force on certain issues, including apartheid, at international
forums, particularly the United Nations where they enjoyed a majority status in the
General Assembly. It was primarily here that the anti-apartheid organisations, through
the platform provided by the newly independent countries, succeeded in bringing the
plight of the black majority in South Africa to the constant attention of the international
community. This eventually led to the establishment of the Special Committee on
Apartheid in 1962, the imposition of a voluntary arms embargo against South African in
1963 and the establishment of the Unit on Apartheid in 1964. These United Nations'
committees continued to highlight what they believed was the racial injustice in
apartheid South Africa.

23 The holocaust had questioned discrimination on the grounds of religion or race. The latter would
become more relevant in the sixties with the civil rights movements in the USA, and decolonisation, particularly in Africa.

24 In 1948 India was granted independence. This trend gained momentum when 20 African countries were
granted their independence between 1960 and 1962. The form of democracy which these countries accepted was based on one man, one vote. This provided the norm for dealing with a transfer of power from a colonial power to a majority, even though most of these "democracies" became one party states for many decades afterwards.

25 Between 1950 and 1963, 31 resolutions regarding South Africa's domestic policy were passed in the
General Assembly and the Security Council, 5 of which were passed in 1961 alone (United Nations 1965: 3).
The suggestion of sanctions as a means to bring about the downfall of the South African white government was actively promoted during the early sixties for the first time when a United Nations' sponsored conference was convened in London\textsuperscript{26} to highlight the sanctions option. The conference identified those areas of the South African economy which could be vulnerable if sanctions were applied, largely to counter the perception in Western countries that the South African economy was not vulnerable to sanctions\textsuperscript{27}.

The impact of the Sharpeville shootings on foreign confidence in the South African economy was also significant. Foreign capital started leaving the country and a sharp reduction in gold and foreign reserves\textsuperscript{28} was experienced. This led to the imposition of strict foreign exchange controls against the rest of the world, which had originally been introduced in 1939 only to protect the interests of the sterling area, of which South Africa was an important member being world's largest gold producer. The negative impact of the political crisis and the subsequent capital outflow severely constrained the economy.

The Sharpeville shootings, which elicited an international storm of protest and temporary capital outflow, highlighted for the first time that apart from the growing need for the economic upliftment of the country's blacks, their socio-political aspirations were also important, and had to be addressed. It was realised that some form of political accommodation had to be found for particularly the urban black. Dr. Verwoerd stated at the time that,

"a policy of unending white domination was untenable and that account must be taken both of the moral objections to apartheid and of complaints by businessmen that it impeded economic growth." (Lipton 1985: 30).

His response to this was not majority rule, but the new concept of separate development whereby the blacks would be able to express their political will in what up until then had been their reserved areas in the rest of white South Africa. In order to encourage blacks to remain in these areas and prevent the continued influx of blacks to the white urban

\textsuperscript{26} The conference was convened by Ronald Segal who later published the book "Sanctions against South Africa" in 1964 which incorporated the contributions made at the conference.

\textsuperscript{27} Section 5.7 of this chapter sets out some of the major reasons why the West did not believe the South African economy was vulnerable to sanctions.

areas in pursuit of employment, the reserves would have to become self-sufficient and provide jobs for the large and growing black population, away from the white areas. This could be done through a policy of industrial development of the reserve areas. It was realised, however, that entrepreneurs would have to be encouraged to establish future factories away from the major urban centres, in or close to the reserves. The Tomlinson Commission's recommendation (1955) of direct investment in the reserves was not accepted, but was replaced by a policy of decentralisation, whereby firms would be encouraged to establish themselves on the border of the reserves, but inside white South Africa. In this way white capital and skills could be combined with black labour from the reserves. It was envisaged that this would have the effect of increasing the skills of black workers as they would be free to do more skilled work, and halt or even reverse the flow of blacks to the white urban areas.

The post-Sharpeville period was characterised by an economic boom in South Africa which ran parallel with the implementation of the policy of separate development. The latter was implemented even though there was growing domestic and international opposition to the relevant restrictive measures. This period also saw changes to security policy in order to deal with the domestic opposition movements more effectively. The favourable economic conditions and tightening up of security restrained the capacity of the local anti-apartheid forces to organise and mobilise sufficient support to pose any real threat to the South African government.

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29 These were referred to as the border industries.

30 The border industries were encouraged to promote labour intensive production methods.

31 Transkei received self-governing status as soon as 1963.

32 The amendment to the Defence Act in 1961, for example, allowed the government to use the military for internal disorder, as well as detention without trial (Davenport 1989: 404).
5.4. Rapid economic growth with socio-economic and political stability

It is ironic that during the height of promoting apartheid and separate development, the political and economic environment in South Africa was characterised by strong economic growth and relative socio-political stability. The outflow of capital experienced in the immediate wake of Sharpeville turned around and was positive until 1974\textsuperscript{33}. The economic growth rate achieved during this period was remarkably high and stable. A straight average rate of 5.4 percent was measured for the period 1961-1973 (see table 5.4).

Table 5.4: Real economic growth rates, 1961-1973

<table>
<thead>
<tr>
<th>Year</th>
<th>Percentage change in GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>1961</td>
<td>3.3</td>
</tr>
<tr>
<td>1962</td>
<td>5.6</td>
</tr>
<tr>
<td>1963</td>
<td>8.1</td>
</tr>
<tr>
<td>1964</td>
<td>6.7</td>
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<tr>
<td>1965</td>
<td>6.6</td>
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<tr>
<td>1966</td>
<td>4.7</td>
</tr>
<tr>
<td>1967</td>
<td>7.6</td>
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<tr>
<td>1968</td>
<td>4.5</td>
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<tr>
<td>1969</td>
<td>8.0</td>
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<tr>
<td>1970</td>
<td>4.9</td>
</tr>
<tr>
<td>1971</td>
<td>4.8</td>
</tr>
<tr>
<td>1972</td>
<td>3.0</td>
</tr>
<tr>
<td>1973</td>
<td>4.3</td>
</tr>
<tr>
<td>Average (1961-1973)</td>
<td>5.4</td>
</tr>
</tbody>
</table>


\textsuperscript{33} A total of R3559 million of new funds entered the country during this period (Hobart Houghton 1978: 183).
The process of industrialisation was given a great boost through the policy of import substitution, which was the trend at the time for many other developing countries. New industries were established behind tariff barriers which in turn, however, increased the entire cost structure of the economy. Although the production of consumer goods was extended over a wide range, particular attention was now also paid to those industries which the London 1964 sanctions conference had highlighted as being vulnerable sectors in the economy and, therefore, of strategic importance to South Africa.

An important effect of the rapid industrialisation for present consideration was the growing pressure to find alternative supplies of skilled labour that could supplement the growing shortage of white labour in the urban areas. Although the productivity of the whites had been improved through education and training, the supply continually proved insufficient to meet the rapidly growing demand. The possibility of attracting sufficient skilled people from abroad through immigration was actively pursued but also proved to be limited. It was increasingly being realised that high economic growth, particularly in manufacturing could only be sustained by progressively relaxing restrictive labour controls and training blacks. This resulted in a more flexible labour policy being adopted by the government together with less stringent control over the influx of blacks to the "white" urban areas. Besides the normal flow of labour from the reserves, where employment prospects were particularly poor despite border industry development, there was a steady increase in the number of workers seeking employment from the modern agricultural and mining sectors, where production methods were becoming more capital intensive. As blacks moved in to fill the skill shortages, their wages started increasing at a rate faster than that of the whites towards the end of the sixties and early seventies, thereby ensuring a process of narrowing the white-black income gap. It would, therefore, appear that the growth in the formal sector of the economy during this decade was systemically absorbing larger numbers of the growing urbanised black population.

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34 An example is the rapid expansion of SASOL, the state owned company which converts coal to oil and made South Africa less dependent on imported crude.


36 The floating job bar involved blacks moving in to urban areas to do the less skilled work that had been traditionally reserved for whites, while whites moved upward to do more skilled work (Lipton 1985: 33).

37 The white-black income gap remained constant or widened until the late sixties. The real wages of both blacks and whites increased over that period. It was only after the early seventies that the gap between the two started to narrow (Knight and McGrath 1977: 96).
population. However, it could be expected that if either the economy slowed down or the rate of urbanisation increased, the capacity of the modern economy under the given circumstances would not provide sufficient job opportunities for blacks. This, in turn, would make for an unstable socio-economic and political climate.

Table 5.5: Urbanisation according to number (in millions) and percentage of various population groups, 1960-1970

<table>
<thead>
<tr>
<th>Census Year</th>
<th>1960</th>
<th>1970</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>number (percent)</td>
<td>number (percent)</td>
</tr>
<tr>
<td>White</td>
<td>2.6 (83.6)</td>
<td>3.3 (86.8)</td>
</tr>
<tr>
<td>Africans</td>
<td>3.5 (31.8)</td>
<td>5.1 (33.1)</td>
</tr>
<tr>
<td>Coloureds</td>
<td>1.0 (68.3)</td>
<td>1.5 (74.1)</td>
</tr>
<tr>
<td>Indians</td>
<td>0.4 (83.2)</td>
<td>0.6 (86.7)</td>
</tr>
<tr>
<td>Total/Average percentage</td>
<td>7.5 (46.7)</td>
<td>10.4 (47.8)</td>
</tr>
</tbody>
</table>


As indicated in table 5.4, South Africa's high economic growth trend appeared to have lost momentum by the early seventies. The high and increasing cost of skilled labour together with other rising prices which result from protectionist measures to promote import substitution increased South Africa's entire cost structure. This together with an overvalued currency, assisted by import and exchange controls, worked against the international competitiveness of the South African economy and the development of a significant manufacturing export base. This was to become a major constraint on the country's future economic performance when a high gold price was not sustained. The inability to expand industrial exports rapidly at a stage when viable import substitution opportunities were diminishing meant that the demand for South African goods was not large enough to induce large scale production and provide sustainable momentum for the economy to absorb its increasing urban black population. According to table 5.5, the latter had grown by a further 50 percent during the sixties, i.e. at an accelerating overall rate with the limits being approached for whites, coloureds and Asians. The degree of urbanisation for blacks was only 40 percent compared with that for the other groups, but already their numbers amounted to about half the total urban population, in spite of apartheid influx control measures.
The policy of decentralisation, an integral part of separate development, was also not having the desired impact in halting, let alone reversing the influx of blacks into the "white" urban areas. Very few entrepreneurs moved their factories to the border areas, even though large incentives were offered. Great expenses were also being incurred to create jobs in the border areas. These costs became more difficult to justify in terms of the negligible effect the policy was having on discouraging the movement of blacks to the urban areas.

On the international front, South Africa's major trading partners were also moving into a recession by the early seventies. The USA felt the effects of the slowdown in world economic growth more directly as more countries started to convert their dollar holdings into gold which, in turn, put pressure on the U.S. dollar. Because the USA was obliged to make good these conversions according to the Bretton Woods adjustable peg exchange rate system at the time, its gold reserves were steadily being eroded. The situation could not be sustained and in 1971 President Nixon announced that the dollar was no longer convertible into gold. By March 1973, the dollar was no longer supported by the other major industrialised countries with the result that the world's major currencies were to float freely thereafter (Södersten 1980: 46).

This announcement would have far-reaching repercussions for the South African economy. The price of gold immediately responded positively to these international developments and provided a much needed boost for the South African economy which up until then had been suffering from uncertain and dreary prospects following the booming sixties. However, the delinking of gold as a monetary asset would mean that in future its price would no longer be fixed. It would have to find its own price level in

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38 The cost of creating a job in the decentralised region was considered to be four to five times more than in the metropolitan areas (Lipton 1985: 245).

39 There had already been a limited delinking of gold in 1968 when the two-tier system in the marketing of gold had been introduced. This allowed "monetary gold" to be traded between central banks at $35 an ounce, while the free market determined the price of gold for other usages according to supply and demand conditions. The result of this freeing was a higher market gold price (Södersten 1980: 46).

40 Some of the consequences will be analysed in chapter 6.

41 The gold price of $35 an ounce doubled by 1972 and reached $120 in 1973, and $187 in 1974 (South African Reserve Bank Quarterly Bulletin Supplement 1993). As a result, foreign exchange earnings were increased substantially.
the market without the support of any government or international financial institution. This implied that its price could in future expect to show significant fluctuations like any other commodity. The stable but limited export earnings enjoyed by South Africa in the past could no longer be assumed for the future. South Africa would soon start to experience the destabilising impact of fluctuating foreign exchange earnings at the time of the two oil price crises of the seventies.

5.5. Slow economic growth with socio-economic and political instability

The dollar price of gold initially responded positively to its new commodity status and increased fivelfold between 1971 and 1974. The South African economy benefited directly from this increase through greatly improved foreign exchange earnings. However, this positive price effect was short-lived and partly neutralised by the first oil price hike of 1973. The fourfold increase in the price of oil had far-reaching repercussions for both the developed as well as the developing countries. Most were caught unawares by this sudden change in price of a major import item. The result was that most oil importing countries ran huge current account deficits. This sudden deterioration in the terms of trade of the oil importing countries was addressed by inflating their economies with the use of borrowed funds.

The South African economy was initially not as adversely affected as other oil importing developing countries because the high gold price that had preceded the oil price hike remained high, thereby more than countering the negative impact of the high oil price. Table 5.6 shows that the terms of trade for South Africa actually improved from almost 80 (79.5) in 1971 to 116.5 in 1974, (a forty six percent improvement over three years) but had started weakening again after 1974 and reached 96.5 by 1976. This quick

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42 The role that a stable gold price can play in a country's foreign exchange earnings is partly reflected in the steady terms of trade position shown in table 5.6 where it fluctuated closely around a level of 80 before 1972.

43 As a net oil importing country South Africa was dealt an additional blow when the Arab countries refused to ship any oil directly to South Africa. This was partly because South Africa had supported Israel in the Yom Kippur war (1973) and partly because the Arab countries were aligned to the third world countries who were fiercely anti-apartheid.

44 Also see chapter 6, section 2 for the unstable economic environment that all oil importing countries were exposed to.
deterioration in South Africa’s terms of trade, in addition to the depressed international conditions, directly affected the current account of the balance of payments and had the effect of pushing the economy into recession. The recession that ensued during 1976/1977 exposed the socio-economic consequences of rapid urbanisation and exclusionary racial policies.

Table 5.6: South Africa's terms of trade, 1960-1980
(1985 = 100)

<table>
<thead>
<tr>
<th>Year</th>
<th>Terms of trade index</th>
</tr>
</thead>
<tbody>
<tr>
<td>1960</td>
<td>84.5</td>
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<tr>
<td>1961</td>
<td>82.5</td>
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<tr>
<td>1962</td>
<td>79.1</td>
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<td>1963</td>
<td>75.9</td>
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<td>1964</td>
<td>78.0</td>
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<td>1965</td>
<td>73.7</td>
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<td>1966</td>
<td>74.2</td>
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<td>1967</td>
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<td>80.6</td>
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<td>76.6</td>
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<td>1975</td>
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<td>1976</td>
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<td>1977</td>
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<tr>
<td>1978</td>
<td>101.9</td>
</tr>
<tr>
<td>1979</td>
<td>107.0</td>
</tr>
<tr>
<td>1980</td>
<td>119.8</td>
</tr>
</tbody>
</table>

The underlying socio-political tensions exploded in 1976 with the Soweto riots. On June 16, a group of schoolchildren\(^{45}\) protesting against the use of Afrikaans as a medium of instruction, clashed with the police. The police opened fire on the crowd killing one youth. Within five days 130 unrest-related deaths were reported on the Witwatersrand. The unrest quickly spread to other parts of the country. The situation was exploited as a direct consequence of apartheid measures and led to a revival of black political activity including the rejuvenation of political organisations which had previously been stifled.

The international impact of the Soweto riots was equally significant. The fact that many of the people involved in clashes with the police were children, portrayed the apartheid system as even more unjust and oppressive. The international anti-apartheid movements highlighted the harsh oppressive measures as a direct consequence of apartheid. The USA was particularly sensitive to the South African riots, given the racial history of that country and the consequences of the civil rights movement a decade earlier. The increased international awareness of the socio-political problem in South Africa improved the lobbying power of the anti-apartheid organisations. Their renewed call for comprehensive sanctions against the apartheid government was eventually partially answered in 1977 when the Security Council of the United Nations passed Resolution 418 which imposed a mandatory arms embargo against South Africa.

The Soweto riots also led to certain anti-apartheid groups in the major industrialised countries forcing multinational corporations based in these countries to question and reassess their stake in the South African economy. There was the view that investments in South Africa were supporting the apartheid government, either through supplying goods\(^{46}\) directly to state run institutions or indirectly by contributing to the fiscus through taxation. Furthermore, the anti-apartheid organisations did not want the multinational corporations to make profits out of the apartheid system\(^{47}\). As a result,

\(^{45}\) It is interesting to note that in 1961 women were involved in the Sharpeville shootings and in the 1976 Soweto riots, children. This indicates how urbanised and permanent the black population had become in "white" areas even though the strict apartheid laws were intended to control black families from settling in "white" urban areas.

\(^{46}\) General Motors had to make sure that its products were not supplied to apartheid enforcing institutions such as the South African Police or the South African Defence Force. IBM had to make sure its computer systems were not used for security purposes.

\(^{47}\) Desmond Tutu is quoted as having said later that "those who invest in South Africa should not think they are doing us a favor. They are here for what they get out of our cheap and abundant labour, and they should know that they are buttressing one of the most vicious systems." (Curtis 1988: 1).
there was increasing pressure for these multinational corporations to withdraw their operations and investments from South Africa. At the time, many of the multinational corporations felt, however, that they would not contribute to change by withdrawing from South Africa, but could rather play a positive role by undermining apartheid from within. To diffuse the debate and neutralise the calls for disinvestment, the multinational corporations operating in South Africa agreed on a set of employment practices. This temporarily reduced the pressure on the multinational corporations to disengage from South Africa.

The Soweto riots and general unrest also highlighted one of the many grievances of the black community, i.e. the content and quality of their education. It drew attention to the many other shortcomings of the apartheid system, particularly its inability to provide political stability and a trained labour force for economic development in the future. The effects of economic growth and urbanisation had changed the demographic picture to such an extent that the apartheid system could no longer adapt to and deal with this changing socio-political and economic environment. As Kane-Berman (1990: 19) points out, blacks had "voted with their feet" and ignored laws on influx control in pursuit of employment in the major urban centres. Urban blacks could no longer be considered as temporary residents but were fast becoming permanent residents. Blacks were increasingly becoming integrated into the formal sector of the economy. In addition, they were rapidly expanding their consumer base with their increasing disposable income. In the workplace, industrial action had laid the foundation for the development of a black trade union movement, something that would be recommended by the Wiehahn and Riekert Commissions (1979) but only be legalised in the eighties. Many of these changes or adaptations were providing the disenfranchised urban blacks with a greater say, albeit indirect, in the direction of change in the administration of the country.

48 USA companies agreed to follow the so-called Sullivan Principles, while the European companies adhered to the EEC Code of Conduct. These "codes of conduct" did not only focus on favourable employment conditions for blacks, but also on ways in which the workers' environment outside the workplace could be improved.
The general political and economic upheaval caused by the 1976 Soweto riots clearly indicated to the government that the status quo could not be sustained. The consequences of the socio-political instability had affected business confidence adversely and prolonged the recession. Meanwhile, the cost of maintaining apartheid had become prohibitively high judged against a slower economic growth trend, particularly also since it was increasingly seen to be ineffective in achieving its apartheid goals. Kane-Berman (1990) summarises the growing untenable situation as follows:

The silent revolution has obviously gone much further in the socio-economic than in the political field. This is because blacks have exerted pressure more successfully in the former than in the latter. There is a contradiction in permitting, indeed promoting, the economic enfranchisement of black people in an integrated economy, and simultaneously denying their claims to political rights in that economy. The attempt to confine a steadily integrating economy within the straitjacket of political apartheid has been one of the main causes of political upheaval in South Africa. The proof that it cannot work is everywhere. The socio-economic changes have been spilling into the political field, and the straitjacket is being prised loose." (Kane-Berman 1990: 49).

Given the changing balance of socio-economic power, it became progressively more expedient and pragmatic to seek a new approach to the stalemate that had developed under a system of apartheid based on ideology.

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49 When compared to the business cycle of the industrialised countries, South Africa's deviation from the long-term trend was almost double that of other developed countries during the late seventies (van der Walt 1989: 68), implying that wide and frequent economic fluctuations could enhance political instability.

50 A term coined by Kane-Berman (1990) to describe the steps taken by ordinary (black) South Africans to undermine the effectiveness of apartheid and force the government to take a more pragmatic approach to incorporate them as members of the South African community. The process already started in the early seventies when the surplus of white skilled labour dried up and the government faced the choice of allowing the economy to stagnate, or permitting black people to be trained for semi-skilled jobs in the cities to meet the country's needs. (Kane-Berman 1990: 42).

51 Merle Lipton (1985) suggests that initially apartheid had benefited the whites in South Africa. However, the costs associated with its implementation became increasingly costly over time. As the system was not sustainable over the long term, it was in the interests of the politicians to change their policy direction. Change was, however, to be difficult, slow and most of all an uncertain process.
5.6. Reforming apartheid and separate development

For South Africa the clear break away from strict apartheid policies came in 1977 when PW Botha was elected Prime Minister as opposed to the more conservative Dr. Connie Mulder. From the outset Botha maintained that South Africa had no other option but to adapt to the changing demographic, political and socio-economic environment. A programme of gradual reform was proposed which he hoped would address some of the political, but primarily the economic grievances of blacks. The programme would concentrate on removing many of the hurtful discriminatory measures against blacks, easing restrictions on the more efficient utilisation of manpower as well as taking significant steps to improve the poor socio-economic conditions of blacks, particularly in the urban areas.

The proposed reform measures were welcomed by most domestic and foreign interested parties, and interpreted as a significant change in direction for the South African government. Many of the interested parties were encouraged by this shift in policy away from doctrinaire apartheid, and decided to become actively involved by playing a positive role in the reform process. The business community that had in the past criticised government policies, was willing to cooperate and work closer with the government to formulate strategies to facilitate the reform process and even to free some resources for socio-economic upliftment programmes. This co-operation between the private sector and the state was reflected in the Carlton and Good Hope conferences held in 1979 and 1981, respectively.

The international environment also improved for South Africa. Not only was the imposition of further sanctions considered undesirable but the international community was being encouraged to participate in the reform process. The United Kingdom under Thatcher and the USA under Reagan took the lead in becoming actively involved

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52 Botha is credited with the slogan "adapt or die".

53 This was outlined in a twelve point plan which Botha put forward at a National Party Congress in Durban in August 1979 (Barber and Barratt 1990: 256).

54 This was different to the relationship that existed between the business community and the government under Vorster. He had instructed that the business community should concern itself with making money while the government would deal with the political developments (Lipton 1985: 322).
through positive interaction. Increased rather than diminishing economic interaction was encouraged to support the reform process. This positive attitude was reflected in, amongst other things, American investments in South Africa doubling between 1980 and 1983. The major industrialised countries were clearly of the opinion that South Africa was undergoing a significant and irreversible policy change away from apartheid.

The gradual movement away from apartheid gained momentum as a result of promising political and economic developments that transpired until 1982. The government addressed constitutional matters by appointing the Presidents Council (a think tank) to study various aspects regarding the need for a future constitution to accommodate more than just the whites in South Africa. Their recommendation was that, initially, a Tri-Cameral system incorporating the Coloureds and Indians should be instituted, to be followed by further changes to the constitution at a later stage to incorporate representation for the blacks within the central government. The old approach of only granting these groups self-determination status was proving to be both geographically and economically non-viable (Lipton 1985: 78). Although the new constitution was not the final answer, it was seen as an important step in the right direction, away from grand apartheid.

Redistribution of wealth directed towards blacks was speeded up by targeting social service expenditures in the budget. Although whites had always received a higher percentage of the social expenditure budget, there was a significant shift in priorities after 1978 to the black communities in the form of higher education and health and welfare expenditures. The education budget, for example, for blacks had risen from R50 million in 1970 to R1.168 billion by 1983. The per capita ratio of expenditure on white and black children had also narrowed from 16.6:1 in 1968 to 7.2:1 in 1983. Progress was made in accommodating some of the grievances of the predominantly non-white labour force. Many of the recommendations of the Rieckert and Wiehahn Commissions were accepted, the more important of which allowed black labour to organise itself to negotiate more favourable wages and working conditions, as well as abolishing job reservation.

55 In the USA, the President's policy towards South Africa was called "constructive engagement", a term coined by Dr. Chester Crocker, Assistant Secretary of State for Africa Affairs. In essence this approach encouraged reform and rewarded the government when positive changes were made.

56 The implementation of the new constitution will be referred to again in chapter 6.
At the same time, the economic outlook for South Africa improved significantly after 1979. The price of gold rose dramatically in response to the second world oil crisis. As a result South Africa's terms of trade improved from 101 in 1978 to 119 in 1980 (see table 5.6), and there was a substantial improvement in the current account of the balance of payments. This meant that there were now sufficient funds available to finance both the higher cost of imports as well as any pressures on the external capital account. It was confidently expected that these greatly improved economic prospects were of a medium to long term nature. It was also expected that the government would be able to afford its socio-economic reform programme and rapidly redistribute wealth through high and sustained growth in public funds together with overall economic progress.

This perception was clearly formulated and confirmed by Dr. Gerhard de Kock's presidential address to the Economic Society of South Africa in late 1980:

"As a result of these and other changes (gold and oil price hikes), the international cards have been extensively reshuffled and virtually all countries have been dealt new "hands". Some countries, mainly the oil producers, now find themselves holding virtually all the aces. Others, particularly the non-oil developing countries, have infinitely weaker cards. Certain industrial countries, such as Germany and Japan, have also been dealt relatively weaker hands than during the previous round. But since they have enormous reserves of "chips", their position remains strong and they can continue to play without undue concern, particularly since they are such skillful exponents of the game.

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57 The price of gold increased by more (tenfold) than the price of oil (sevenfold) between 1973 and 1980. See section 6.2.2 of chapter 6 for a more detailed analysis.

58 This is because gold constituted a larger proportion of exports than oil constituted of imports. The result was a surplus on the current account of the balance of payments which averaged 5 percent of GDP between 1979 and 1980.

59 This, in part, motivated the authorities to lift exchange control on non-residents in 1983 in accordance with the recommendations of the De Kock Commission on Monetary Policy (The Monetary system and Monetary Policy in South Africa (1984)). In 1983, all restrictions on capital movements of non-residents were lifted with the abolition of the financial rand system. It was hoped that this would be attractive to foreign investment.

60 It was the expectation that South Africa would be able to finance the upliftment of the black community with its own resources without requiring external finance that prompted officials to encourage unrealistic expectations regarding the capacity of the high gold price to finance the huge socio-economic upliftment process of blacks.
On the whole South Africa has benefited greatly from this reshuffling. Although it continues to be adversely affected by the oil prices and the pernicious combination of world inflation and recession, the South African economy has, on balance, been strengthened by the enormous increase in the value of its gold output and other exports, and by the improvement in its terms of trade."

He continued to point out that even though oil price increases had a detrimental effect on certain sectors of the economy, the external price changes had allowed,

"the overall strengthening of the economy and of the government’s finances (which) has enabled the authorities to "recycle" many of the benefits - a process which will no doubt continue. In addition, many work-seekers will, of course, benefit from additional job creation and the more rapid rate of economic expansion in general. All things considered, therefore, South Africa has come out on the right side and, if it plays its cards well, should continue to prosper in the period ahead."

He intimated, in fact, that as a result of these new developments, South Africa would be able to sustain a longer or a stronger upswing close to the turning point before the current account ran into a deficit, or alternatively, that the downswing in the business cycle would result in a surplus on the current account at an early stage. Consequently, unless the increased level of liquidity was addressed through market oriented policies, which included abolishing exchange control on non-resident investments, South Africa would encounter "bottleneck" if not demand inflation (De Kock 1980: 351-356).

The optimistic viewpoint, that the government could feel confident to continue with its ambitious reform initiatives without fear of undue internal or external financial constraints, was widely shared. Parker confirms this confident outlook as follows:

"Profits of the magnitude earned that year (1979/80) placed South African export earnings as a percentage of GDP in third place in the world behind Japan and West Germany. Export earnings of this size would allow South Africa to offset inflation, political risk, an oil cutoff and capital withdrawals all at once." (Parker 1983: 169).

The positive sentiment about South Africa continued even after the price of gold started falling in 1981. It was felt that this was only a temporary phenomenon in the nature of things. There was no need to apply deflationary policies in order to adjust to the weakening current account of the balance of payments, but to borrow foreign funds instead to offset a temporary liquidity problem. This assumption was based on the fact
that the demand for gold would probably remain high if international economies again responded in an inflationary manner to the second oil price hike of 1979. Secondly, if the inflationary response did not materialise and industrialised countries adopted deflationary policies instead, a third world debt crisis would ensue and destabilise the dollar which in turn would also promote a higher gold price.

South Africa's confidence in dealing with a temporary setback in a much improved foreign climate was strengthened by the fact that the IMF granted South Africa a sizable loan at the time. The loan was not fully used and in fact repaid before maturity, as there was a growing willingness amongst international banks to lend funds to South Africa at the time. Moreover, capital also continued to flow into South Africa in the form of direct foreign investment, particularly from the USA. The positive trends were, however, increasingly to be questioned soon after when both external and internal developments were to affect South Africa's political and economic outlook adversely. These developments will be further analysed in the next chapter.

5.7. A renewed emphasis on the use of sanctions

It remains to recall here that the promising prospects during the eighties of political accommodation in South Africa through constitutional reform on the back of prosperity was paralleled by an important shift in the future strategy to be pursued by the traditional anti-apartheid forces (governments and organisations). At the International Conference on Sanctions against South Africa, organised by the United Nations and the Organisation of African Unity in 1981, the anti-apartheid groups acknowledged the unsuccessful attempts of the past to convince the United Nations' Security Council to impose comprehensive sanctions against South Africa on the grounds that its policy was threatening international peace. These groups agreed that;

"the obstacle for the effective application of sanctions against South Africa is the policy of a small number of the most powerful Western powers together with a few reactionary and fascist regimes which persistently frustrate the overwhelming majority of mankind." (United Nations 1981: 117).

61 On October 4, 1982, SA applied for a $1.7 billion loan from the IMF, $689 million under the compensatory financing facility, and $394 million as a standby arrangement. On November 3, 1982 it was approved (Parker 1983: 187).
The anti-apartheid groups had not been able to counter the traditional arguments used by the Western nations of the United Nations Security Council against the use of sanctions in the case of South Africa. These included the following:

* South Africa was not really vulnerable to sanctions. It had varied and abundant natural resources; it had a rapidly developing industrial base; there was a high degree of technical and managerial skills available; it participated in foreign trade and received investment. Only a total blockade would make sanctions effective.
* Sanctions would have far-reaching repercussions and be very expensive for some member states, which in turn would have to be compensated for their losses.
* Apartheid was being eroded by economic growth.
* Non-white workers would suffer as a result.
* Although sanctions were feasible and could have an important psychological impact the result was not sure (United Nations 1965: 42-59).

The anti-apartheid organisations realised that as a result of the new positive economic and political climate in South Africa the chances were even more remote that the leading Western members of the Security Council would escalate sanctions through the United Nations. The only other option was to rely on the political support of anti-apartheid organisations in the USA and the UK themselves to oppose their government's anti-sanctions approach and, at the same time, use their economic influence to apply sanctions against firms and institutions dealing with South Africa. The conference concluded that

"what would ultimately enforce comprehensive sanctions, and make the mandatory arms embargo respected, would be done only through collective vigilance of and action by those member states who stood for sanctions, with the active support of the anti-apartheid organisations in the Western countries." (United Nations 1981: 117).

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62 The United Kingdom representative estimated the cost to the UK's balance of payments at £300 million for the first year (United Nations 1965: 181). The total costs of a naval blockade of South Africa to enforce an embargo would amount to £70 million per year, rising to £130 million per year if the blockade was extended to include adjacent territories (United Nations 1965: 229). In 1994 terms, these costs would amount to R7.4 billion and R11.2 billion per annum, respectively.
The success of any future pressure against South Africa, particularly in the form of sanctions would, therefore, depend on the anti-apartheid forces within the Western countries applying pressure on both their governments and private sector economic institutions. Consequently, the anti-apartheid organisations, such as trade unions, political parties, religious organisations, peace movements, women's organisations and youth and student organisations, would be mobilised to highlight the situation in South Africa and call for the imposition of sanctions as a means to remove the minority government.

Even though at the time it seemed as if the recommendations of the conference were futile given the internal political reforms and prosperous outlook together with the increasing positive attitude towards South Africa, the strategy and groundwork to mobilise support against South Africa within the Western countries had been established. Although widely regarded as unlikely at the time, all that was required to make this approach most effective was for the reform process in South Africa to falter and for unrest to flare up again. The climate for this would prevail two years later.
CHAPTER 6

PROLONGED ECONOMIC RECESSION, GROWING UNREST AND THE ESCALATION OF SANCTIONS

6.1. Introduction

In the previous chapter it was pointed out that the post-World War II industrialisation of South Africa gradually eroded apartheid as a political system, while highly selective sanctions, limited to certain strategic imports, were applied against South Africa in the early sixties and middle seventies following brief periods of economic recession and social unrest. These measures were little more than signals of disapproval by the international community against apartheid. By the end of the seventies, the government had already publicly committed itself to a policy of political reform away from apartheid. This shift in policy was enthusiastically and rapidly implemented during the first half of the eighties in a climate of new constructive international relations, and with great optimism regarding South Africa’s economic prospects. It was anticipated that the deliberate movement away from apartheid would ease growing political tensions, both on the domestic scene, regionally and in international relations. With the expectations of sustained economic prosperity together with parallel constitutional reform, South Africa was generally regarded as less vulnerable to economic sanctions than ever before. Not only were the political justifications for further sanctions fading, but most encouraging economic prospects would diminish the chance of any severe recessions and also strengthen the economy further to withstand better the impact of any escalation of sanctions.

Unforeseen economic and political developments both at home as well as abroad, however, would in a very short period of time, alter South Africa’s favourable prospects for peace and prosperity dramatically in the eighties. The assumptions on which the positive outlook for South Africa was based soon proved unfounded. The setbacks were of a structural nature and acquired a reinforcing dynamic of economic crisis and social unrest of its own. These negative developments led instead to a depressed economic environment and a pause in the political reform process away from apartheid, both of

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1 The economy was projected to perform exceptionally well following the prospect of the gold price maintaining its high levels of the late seventies and early eighties.
which culminated in the escalation of sanctions between 1985 and 1987. The timing of the imposition of further sanctions was strongly influenced on the one hand, by the need to accelerate the process of political reform and, on the other, the discovery that South Africa was after all financially vulnerable to sanctions.

This chapter will briefly describe the deterioration of economic conditions in South Africa during the early eighties which gave rise to its foreign debt crisis of 1985. Particular attention will be given to the impact of the freeing of the price of gold and the two oil price crises during the seventies, followed by the fall in commodity prices and the cessation of foreign commercial bank lending during the first half of the early eighties. Frequent reference will be made to developments in other developing countries for comparative purposes.

6.2. Economic deterioration in many developing countries during the early eighties

6.2.1. South Africa's earlier pattern of economic stability and steady growth

In order to better understand the dramatic turnaround in South Africa's fortunes during the early eighties, it is necessary to first draw attention to the country's traditional pattern of economic stability and steady growth. Ever since South Africa had become part of the modern world economy in the late nineteenth century (disregarding the impact of the three major wars) it had experienced relatively stable economic growth, in contrast to the experience of most other primary commodity export countries. The main reason for this was the country's great mineral wealth and particularly the role of the gold mining industry which ensured that South Africa enjoyed one of the most stable economic environments in the world. South Africa could rely on a fixed price of gold and unlimited foreign demand for its major export product. This provided a steady flow of export earnings which were supplemented from time to time by other high mineral export earnings during world boom periods. Under these circumstances, South Africa was in the fortunate position of combining the foreign trade advantage of steady export earnings during mild recessions as experienced in the industrialised countries in general, with some higher export earnings enjoyed by primary producing countries during boom periods.
The accompanying table (table 6.1) clearly illustrates South Africa's traditional high degree of stability as a gold exporting economy, not only in relation to other developing countries but even compared with many industrialised countries.

Table 6.1: Average variability\(^1\) of the export proceeds of thirty countries, 1948-1957

<table>
<thead>
<tr>
<th>Country</th>
<th>Standard Deviation (percent)</th>
<th>Country</th>
<th>Standard Deviation (percent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finland</td>
<td>16.9</td>
<td>Iran</td>
<td>53.3</td>
</tr>
<tr>
<td>Japan</td>
<td>12.4</td>
<td>Yugoslavia</td>
<td>23.4</td>
</tr>
<tr>
<td>United States</td>
<td>12.2</td>
<td>Argentina</td>
<td>15.8</td>
</tr>
<tr>
<td>Belgium</td>
<td>10.4</td>
<td>Turkey</td>
<td>13.7</td>
</tr>
<tr>
<td>Norway</td>
<td>10.4</td>
<td>Chile</td>
<td>13.0</td>
</tr>
<tr>
<td>Italy</td>
<td>10.2</td>
<td>Australia</td>
<td>12.0</td>
</tr>
<tr>
<td>Sweden</td>
<td>10.2</td>
<td>Brazil</td>
<td>11.5</td>
</tr>
<tr>
<td>France</td>
<td>10.0</td>
<td>Egypt</td>
<td>10.9</td>
</tr>
<tr>
<td>Austria</td>
<td>8.8</td>
<td>Venezuela</td>
<td>10.7</td>
</tr>
<tr>
<td>Germany</td>
<td>7.1</td>
<td>India</td>
<td>10.5</td>
</tr>
<tr>
<td>Canada</td>
<td>6.9</td>
<td>Mexico</td>
<td>8.9</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>5.1</td>
<td>Ceylon</td>
<td>8.4</td>
</tr>
<tr>
<td>Switzerland</td>
<td>4.3</td>
<td>Colombia</td>
<td>8.0</td>
</tr>
<tr>
<td>Netherlands</td>
<td>3.5</td>
<td>New Zealand</td>
<td>7.1</td>
</tr>
<tr>
<td>Denmark</td>
<td>3.2</td>
<td>South Africa</td>
<td>5.4</td>
</tr>
</tbody>
</table>

\(^1\) As measured by the standard deviation from the trend over the decade.

Source: Franzsen (1960: 37).

South Africa also shared in the high growth and stability achieved by the major industrialised economies during the first two post-World War II decades, largely as a result of the return to peace time development and the active demand-managed policies of industrialised countries. This experience was in sharp contrast to the wild economic fluctuations and uncertainty which characterised the previous inter-war period. South Africa enjoyed a net inflow of foreign capital equivalent to no less than three percent of its GDP during the first two post-war decades, while the latter itself grew at an average
rate of more than five percent annually. The country enjoyed exceptionally stable and high economic growth, and could not afford inflationary policies in fear of undermining its gold production which had a fixed US dollar price under the fixed exchange rate system.

Table 6.2: South Africa's GDP growth, ratio of exports to GDP and of gold to exports, 1951-1984

<table>
<thead>
<tr>
<th>Years</th>
<th>GDP growth (average annual percentage change)</th>
<th>Exports to GDP (percentage)</th>
<th>Gold to exports (percentage)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1951-72</td>
<td>4.9</td>
<td>25</td>
<td>37</td>
</tr>
<tr>
<td>1973-78</td>
<td>2.9</td>
<td>25</td>
<td>38</td>
</tr>
<tr>
<td>1979-84</td>
<td>3.1</td>
<td>25</td>
<td>47</td>
</tr>
</tbody>
</table>

1) Non-service exports including gold

Source: South Africa Reserve Bank (1993 and 1994).

Reference to table 6.2 illustrates how for more than two decades prior to 1972 South Africa enjoyed an average annual GDP growth rate of almost 5 percent with a non-service exports to GDP ratio of about 25 percent, nearly 40 percent (or 37 percent) of which was accounted for by gold. During this period the annual GDP growth rate never fell much below 3 percent (1958), and reached a maximum of almost 8 percent (1964).

With the same average ratio of non-service exports to GDP of 25 percent, the seventies witnessed a changed growth path for South Africa that extended well into the middle eighties. After the price of gold was determined by the free market forces like that of most other primary commodities, gold continued to account for nearly 40 percent (38 percent) of South Africa's constant exports to GDP ratio, but the economic growth rate slowed down to an average of just less than 3 percent. South Africa's growth also proved less stable. In fact, during the seventies the annual growth rate fluctuated between 6 percent (1974) and nil (1977), a difference of 6 percentage points around an average growth rate of 3 percent, compared with a difference of 5 percentage points around an

2 Net foreign capital flow is taken as equivalent to the current account balance for present purposes.
average of about 5 percent over the two previous decades. South Africa’s growth path was to become even more unstable during the first half of the eighties. With about the same average growth rate of 3 percent between 1979 and 1984 as well as a similar non-service export ratio of 25 percent to GDP, but with a nearly 50 percent (47 percent) contribution of gold to exports, the country’s growth rate fluctuated between a maximum of 6.6 percent (1980) and a minimum of minus 1.8 percent (1983). This gives a difference of more than 8 percentage points for the first half of the eighties. It is clear from the foregoing comparative analysis that the discontinuation of South Africa’s traditionally high and stable economic growth pattern, experienced under a fixed price of gold regime before the seventies, was to present the country with quite different economic challenges during the eighties and beyond.

Not only was South Africa to face lower economic growth in future, but also much less stable economic conditions. Initially, these structural changes could be explained in terms of the changing role of gold in the world economy, and fluctuations in South Africa’s current account. Its balance of payments could readily be countered by capital account transactions. However, this not only reduced the country’s traditional high degree of non-vulnerability to external sanctions, but also increased its vulnerability to internal socio-political unrest in future.

The shift from a stable economic growth pattern similar to that experienced by developed countries to that of a typical primary export based growth pattern as a result of the freeing of the gold price would result in South Africa experiencing less economic stability with moderate growth during the seventies. This was due to the sharp upward trend in the gold price during that period, but less stability with depressed conditions during the eighties because of a downward trend in the gold price.

6.2.2. The favourable but unstable seventies proved to be an unreliable guide for the eighties

The benefits of stability came to an end when the regime of a world fixed price of gold was abandoned worldwide during the early seventies and gold became just another primary traded commodity. As a result, South Africa’s foreign trade position was transformed into that of a typically unstable primary-export developing country. This
Structural change was temporarily masked, however, by the simultaneous boom experienced in commodity prices, including gold, which had been sparked off by the first oil price hike of 1973-74. Later, with the second oil price hike the price of gold was to scale unprecedented heights.

Reference to Table 6.4 shows that between 1971 and 1978 the average price of crude oil increased just less than fourfold, while that of gold rose just more than fourfold, in contrast to the average price of all other primary commodities that only slightly more than doubled. During the second oil price hike of 1979/80 the average price of oil again doubled, compared with a trebling of the price of gold and only a 25 percent increase in the average price of other primary commodities. The net effect of the two oil price hikes of the early and late seventies on South Africa’s import prices, on the one hand, and of price changes of gold and other primary commodity exports (mainly minerals) on the other, is shown in Table 6.3 for the sixties, seventies and first half of the eighties.

Table 6.3: South Africa’s foreign terms of trade excluding and including gold (1985 = 100)

<table>
<thead>
<tr>
<th>Year</th>
<th>Terms of Trade&lt;sub&gt;1)&lt;/sub&gt;</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Excluding gold</td>
</tr>
<tr>
<td>1960/61</td>
<td>164.8</td>
</tr>
<tr>
<td>1969/70</td>
<td>158.3</td>
</tr>
<tr>
<td>1978/79</td>
<td>120.1</td>
</tr>
<tr>
<td>1980</td>
<td>107.4</td>
</tr>
<tr>
<td>1981</td>
<td>105.1</td>
</tr>
<tr>
<td>1982</td>
<td>95.3</td>
</tr>
<tr>
<td>1983</td>
<td>91.5</td>
</tr>
<tr>
<td>1984</td>
<td>100.7</td>
</tr>
<tr>
<td>1985</td>
<td>100.0</td>
</tr>
</tbody>
</table>

1) Export price index divided by import price index.

According to the terms of trade indices excluding and including gold respectively, there was little to choose between the two during the sixties. Both proved relatively stable under a fixed price of gold regime, compared with a deterioration of one third (158 to 107) between 1969/70 and 1980 in South Africa’s terms of trade excluding gold on the one hand, and a fifty percent improvement in its terms of trade including gold, on the other. The oil price shocks of the seventies accompanied by the international abandonment of the fixed exchange rate system earlier in the decade not only introduced instability in the fortunes of many developing countries, but also drastically reduced the terms of trade of non-oil exporting countries as illustrated in the case of South Africa with its terms of trade index excluding gold.

The compensatory and, therefore, stabilising role played by gold in South Africa’s economy during the seventies, when the gold price increased even faster than that of oil, is shown by the difference between the two terms of trade indices already mentioned, namely a fall of one-third in the index excluding gold as against an improvement of fifty percent in the index including gold between 1969/70 and 1980. This most favourable situation of 1980 could only be projected into the future on the assumption that the price of gold continued its upward trend at a rate faster than those for oil and other commodities.

The boom that followed the 1979/80 oil and gold price hikes was, however, short-lived. The major industrialised countries (under the leadership of Reagan in the USA and Thatcher in the UK) reacted differently to the second oil price hike when compared to their reaction to the first one. Not wanting to repeat the inflationary effects and instability of the first oil price adjustment policies, they pursued strict disinflationary policies instead. Interest rates were raised in conjunction with a tight control over money supply. This expenditure reducing approach had an immediate impact on economic growth as most of the major industrialised economies went into a deep recession. The effect of the recession was a reduction in the world demand for oil, which, together with new supplies in response to earlier price hikes, resulted in price declines for oil as well as for other primary commodities after 1981. The gold price proved even more vulnerable. Reference to table 6.4 shows that whereas the average price of non-oil primary commodities fell by 20 percent and that of oil by 24 percent between 1980 and 1985, the price of gold slumped by almost 50 percent.
According to table 6.3, South Africa's terms of trade, excluding gold, deteriorated by about 16 percent between 1978/79 and 1985 (120.1 to 100.0), and by the same extent for the index including gold between 1980 and 1985 (119.8 to 100.0). In both cases the terms of trade also first deteriorated by about 23 percent before recovering moderately to the 16 percent level of deterioration by 1985. Taken over the longer period since the early sixties, the index without gold deteriorated nearly 40 percent by 1985 (164.8 to 100.0), whereas the index including gold improved by 25 percent (83.5 to 100.0). What was important for South Africa, however, was that after the drastic upward adjustments in the price of gold during the early and late seventies, the gold price was increasingly behaving like that of other primary commodities in terms of volatility as well as trend. The experience of the seventies was not a reliable guide for the eighties in the case of South Africa as well as for many other developing countries.

Table 6.4: World commodity price indices (1980 = 100) and interest rates

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-oil primary commodities</td>
<td>33</td>
<td>79</td>
<td>100</td>
<td>85</td>
<td>74</td>
<td>80</td>
<td>82</td>
<td>80</td>
</tr>
<tr>
<td>Oil</td>
<td>14</td>
<td>52</td>
<td>100</td>
<td>118</td>
<td>91</td>
<td>80</td>
<td>78</td>
<td>76</td>
</tr>
<tr>
<td>Gold</td>
<td>7</td>
<td>31</td>
<td>100</td>
<td>75</td>
<td>61</td>
<td>69</td>
<td>59</td>
<td>52</td>
</tr>
<tr>
<td>Interest rates (1)</td>
<td>Short term</td>
<td>7</td>
<td>6.9</td>
<td>11.8</td>
<td>14.1</td>
<td>11.8</td>
<td>9.3</td>
<td>9.7</td>
</tr>
<tr>
<td>Long term</td>
<td>8</td>
<td>8.3</td>
<td>11.2</td>
<td>13.2</td>
<td>12.6</td>
<td>11.0</td>
<td>11.4</td>
<td>9.9</td>
</tr>
</tbody>
</table>

1) In the seven major industrialised countries.

For another, but not unrelated reason, the seventies were also to prove an unreliable guide for the eighties with far-reaching consequences. The foreign debt crisis that many developing countries had to contend with was in no small measure attributable to the dramatic rise in the cost of foreign borrowing in the early eighties. As can be seen from table 6.4, short-term interest rates almost doubled during the early eighties while long-term rates increased by as much as 50 percent initially. Those countries with high foreign short-term debt found themselves in the worst position. Their debt servicing costs increased substantially at a time when their current account deficits widened. During the seventies, oil importing developing countries mostly dealt with the sharp deterioration in their terms of trade by borrowing inexpensive and readily available money from the international financial markets to maintain their current account deficits. As explained earlier on, in contrast to other non-oil exporting countries and largely thanks to the improved price of gold during the seventies, South Africa did not build up a large foreign debt burden during the seventies. Its current account deficit averaged less than 1 percent of GDP during 1971-1981, compared with 2.6 percent in the case of Africa and 3.4 percent in the case of the western hemisphere developing countries.

Funds resulting from the recycling of petrodollars were made available during the seventies by foreign commercial banks at favourable interest rates. The large current account deficits of most developing countries after the second oil price hike were again considered to be due to a temporary decline in their terms of trade. It was expected that when inflation reduced the real price of oil, as it had done after the first oil price hike, the terms of trade of these countries would again improve. However, the major industrialised economies persisted with their strict disinflationary policies following the 1979/80 oil price hike with the result that the terms of trade of the developing countries continued to deteriorate, while the supply of surplus oil funds declined. The fall in the price of oil after 1981 together with an increase in the demand for foreign funds from debt strapped developing countries lay the foundation for a third world debt crisis that threatened the world banking system. The situation was exacerbated by the USA attracting an increasing amount of foreign funds to finance its own trade and budget deficits. These developments explain why foreign funds suddenly only became available for short periods and at high cost, and why net capital flows from foreign banks to developing countries with potential foreign debt difficulties soon became negative.
6.2.3. Comparative size of external economic shocks during the early eighties

Not all the developing countries were of course equally affected by the decline in their terms of trade and the rise in interest rates. According to table 6.5, the order of magnitude of the loss in GDP for South Africa as a result of these two external shocks has been estimated at 7.6 percent. This compares more or less with the average impact for East Asia (8.1 percent), and is considerably less than the average (10 percent) for both South Asia and South America. It was, however, only about half that experienced on average by the rest of Africa.

Table 6.5: External shocks of early eighties by region (percentage GDP)

<table>
<thead>
<tr>
<th>Region and country</th>
<th>Terms of trade shock(^1)</th>
<th>Interest rate shock(^2)</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sub Saharan Africa (ex South Africa)</td>
<td>-10.1</td>
<td>-4.4</td>
<td>-14.4</td>
</tr>
<tr>
<td>- South Africa</td>
<td>-5.0</td>
<td>-2.5</td>
<td>-7.6</td>
</tr>
<tr>
<td>East Asia (ex China)</td>
<td>-3.9</td>
<td>-4.3</td>
<td>-8.1</td>
</tr>
<tr>
<td>- China</td>
<td>-0.6</td>
<td>-0.6</td>
<td>-1.2</td>
</tr>
<tr>
<td>South Asia (ex India)</td>
<td>-7.9</td>
<td>-2.3</td>
<td>-10.2</td>
</tr>
<tr>
<td>- India</td>
<td>-4.6</td>
<td>-1.0</td>
<td>-5.6</td>
</tr>
<tr>
<td>Latin America and the Caribbean</td>
<td>-6.3</td>
<td>-4.0</td>
<td>-10.3</td>
</tr>
</tbody>
</table>

Note: Numbers may not sum to totals because of rounding off. The table shows changes in external conditions for 1985-1988 compared with the average for 1970-1980; it thus gives a measure of those shocks that persisted into the second half of the decade. Aggregations by region are not weighted.

1) The difference between changes in export prices and changes in import prices between the two periods. Prices are in dollars and are weighted by the share of exports or imports in GDP.

2) Calculated from changes in the real interest rate weighted by the debt-to-GDP ratio. The real interest rate is derived from the implicit nominal interest rate (the sum of public and private interest payments less interest receipts on reserves divided by total debt) and from U.S. inflation.

3) Figures for South Africa calculated by the Economics Department of the South African Reserve Bank.

With the exception of the average for East Asia, the impact of the terms of trade shock in all the other regions shown in table 6.5 was still greater than that experienced by South Africa. This nevertheless reflects the important influence that the price of primary commodities including gold had come to play in shaping South Africa's economic performance and prospects, compared with its past stability. South Africa's unfavourable terms of trade effect (5 percent) was closer to the average for Latin American countries (6.3 percent) which are traditionally high commodity export economies. The interest rate shock experienced by South Africa (2.5 percent) was only half that of its own terms of trade shock, however, compared with 63 percent (-4.0 as to -6.3 percent) in the case of Latin America on the one hand, and only 43 percent (-4.4 as to -10.1 percent) on average for African countries, on the other. The major difference between the two latter mentioned lies more in the greater average impact of the terms of trade shock in the case of Africa (10.1 percent), compared with that experienced in Latin America (6.3 percent). Their respective interest rate shocks were of similar magnitude (about 4 percent). South Africa's relatively smaller interest rate shock (2.5 percent) which compared with that for South Asia (2.3 percent), was largely due its much smaller foreign debt burden.

With the benefit of hindsight, this chapter has shown so far that the volatile seventies was an exceptional economic decade that was not to repeat itself soon. The high inflation rates (1972-1982) experienced in the industrialised countries were accelerated by major commodity price hikes, particularly oil. At the same time, the improved terms of trade, particularly for oil exporting developing countries, together with the easy availability of international loan funds on the one hand, and poorer terms of trade for many other developing countries together with their expanding current account deficits on the other, were to come to a sudden halt towards the middle eighties. Few developing countries escaped the impact of this structural change, and even fewer managed to adjust their economies to the new conditions without lower growth, higher inflation, foreign debt rescheduling and socio-political unrest in less than five years. South Africa was not one of the exceptions. The country's current account position fluctuated widely, while its originally more favourable terms of trade also deteriorated. Both these new developments demanded far greater dependence on short as well as long term foreign borrowing to achieve economic stability and sustained growth. The South African economy had changed to that of a more typical unstable export developing country with less promising growth potential. As will be shown later, to the extent that South Africa
could not rely on foreign funding to support its domestic policies of stabilisation and structural adjustment, it had to face longer recessions and accept a lower growth potential, both of which undermined its socio-political stability and encouraged further unrest. The economic experience of the seventies was to prove a very poor guide for the eighties. The difficulties to adjust to these unexpected adverse developments in an environment of ongoing unrest and escalating sanctions after 1985 were to be the exact opposite to the much more optimistic conditions anticipated a few years earlier.

6.2.4. The third world debt crisis and need for structural adjustment

As the eighties unfolded it became clear that the impact of the recession experienced by the industrialised countries would, in contrast to earlier expectations, translate into a new extended era of structural economic adjustment for most developing countries. This would entail anti-inflationary or stabilisation policies in order to adjust to conditions of poorer terms of trade, and a return to tight foreign capital markets over the medium to longer period. It was not simply a cyclical phenomenon. It would mean adjusting to the prospect of slower economic growth with less foreign resources and growing unemployment, particularly for those countries with debt servicing problems.

To deal with the reversal of their terms of trade most of the oil importing developing countries relied increasingly on foreign funds to finance their current account deficits, rather than to reduce such deficits. These countries could not quickly adjust their high imports to their lower export earnings. The result was a ballooning of foreign debt, particularly from foreign commercial banks (see table 6.6), so that already by 1982 many of these countries could not meet their debt obligations. The higher interest rates together with lower export earnings undermined their ability to service and repay their debts.

---

3 Many countries that had received windfall gains in commodity prices first built up their foreign reserves and did not spend the surpluses. However, after a year or two the governments increased government spending and started borrowing against future export earnings. Before their spending programmes were completed, their commodity export prices fell. Thinking that the fall was temporary, governments borrowed even more to replace lost export and fiscal revenues. Within a few years they had crippled themselves with huge debts that now required more painful adjustment to service them (World Bank 1985: 56).
debt. The situation was exacerbated when the availability of particularly private foreign funds dried up from 1984 onwards. Furthermore, in the course of 1984, the USA also became the largest single debtor nation and was to absorb an increasing share of the world's available funds.

The following two tables summarise firstly, the financing of the current account deficits of developing countries during the first half of the eighties and, secondly, the surge in foreign debt particularly for those countries that had to resort to debt rescheduling agreements. The analysis is based on aggregates and its purpose is to draw attention to similarities in developments between on the one hand, developing countries in general and, on the other, South Africa at a time when the market price of its major export commodity (gold) also experienced a downward trend, in contrast to the experience of the seventies when it was first freed.

Briefly, and with reference to table 6.6, the doubling of the current account deficits of net debtor countries from almost 37 billion dollars in 1977 to 77 billion dollars by 1980, and further by more than 50 percent during the next two years was made possible by a surge in external borrowing and the depletion of reserves. By 1981, foreign borrowing was two and a half times higher than in 1977, and amounted to more than 90 percent of the record 121 billion dollars current account deficit experienced by net debtor countries in 1981 when borrowing from private sources accounted for no less than two-thirds of the total flow4.

However, these unprecedented high levels of foreign borrowing still proved inadequate to finance the record current account deficits of the early eighties. In addition, large amounts of unaccounted capital outflows or "capital flight"5 were experienced in several countries during 1981 and 1982.

---

4 According to table 6.6, the relevant amount is 76.3 billion dollars which is estimated as a residual. If separately calculated it shows that net borrowing from foreign commercial banks in 1981 amounted to 91.5 billion dollars which constitutes part of "Other, mainly private borrowing".

5 An indication of "capital flight" from those countries is provided in table 6.6 by the "errors and omissions" item.
Table 6.6: Current account financing of developing net debtor countries, 1977-1985
(billion US dollars unless otherwise stated)

<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Current account deficit2)</td>
<td>36.9</td>
<td>77.0</td>
<td>121.0</td>
<td>118.4</td>
<td>69.5</td>
<td>44.1</td>
<td>50.6</td>
</tr>
<tr>
<td>Financed by:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Non-debt creating flows</td>
<td>14.9</td>
<td>24.4</td>
<td>24.6</td>
<td>24.0</td>
<td>21.4</td>
<td>21.2</td>
<td>31.6</td>
</tr>
<tr>
<td>- External borrowing of which:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Reserve related</td>
<td>3.4</td>
<td>4.2</td>
<td>6.9</td>
<td>10.6</td>
<td>7.8</td>
<td>4.5</td>
<td>-0.7</td>
</tr>
<tr>
<td>- LT borrowing3)</td>
<td>13.8</td>
<td>24.1</td>
<td>29.4</td>
<td>33.7</td>
<td>35.5</td>
<td>34.1</td>
<td>24.6</td>
</tr>
<tr>
<td>- Other4)</td>
<td>28.2</td>
<td>69.7</td>
<td>76.3</td>
<td>52.1</td>
<td>28.8</td>
<td>15.7</td>
<td>14.8</td>
</tr>
<tr>
<td>- Use of reserves5)</td>
<td>-10.7</td>
<td>-18.4</td>
<td>18.5</td>
<td>37.9</td>
<td>-5.0</td>
<td>-15.8</td>
<td>-5.2</td>
</tr>
<tr>
<td>- Asset transactions6)</td>
<td>-6.2</td>
<td>-7.8</td>
<td>-17.9</td>
<td>-13.3</td>
<td>-6.4</td>
<td>-11.4</td>
<td>-13.4</td>
</tr>
<tr>
<td>- Errors and omissions7)</td>
<td>-6.5</td>
<td>-19.1</td>
<td>-16.8</td>
<td>-26.6</td>
<td>-12.6</td>
<td>-4.1</td>
<td>-1.1</td>
</tr>
</tbody>
</table>

1) Due to subsequent adjustments, the data for 1977 and 1980 which are taken from April 1985 (IMF, World Economic Outlook, April 1985) are not strictly comparable to the other figures which were taken from October 1989 (IMF, World Economic Outlook, October 1989).
2) Equivalent to current account deficits less official transfers. For the purpose of this table, official transfers are treated as non-debt-creating external financing.
3) Estimates of net disbursements by official creditors (other than monetary authorities) derived from debt statistics. Official net disbursements include the official claims caused by the transfer of officially guaranteed claims to the guarantor agency in the creditor country, usually in the context of debt reschedulings.
4) Residually calculated. Except for discrepancies in coverage, amounts shown reflect net external borrowing from private creditors (by far the largest share) and short term official flows (primarily interest arrears on official debt).
5) A plus means a fall in reserves.
6) Pertains primarily to export credit.
7) Positioned here on the presumption that estimates reflect primarily unrecorded capital outflows (capital flight).

Under the circumstances, excessive use of foreign reserves had to be resorted to by many debtor countries in order to finance the shortfall that was expected only to be temporary in nature. A decline in reserves of no less than 18 billion dollars was experienced by these countries in 1981, and double this amount in 1982. It is clear that if these deficits were of a structural nature, however, they could only be sustained by relying increasingly on foreign loans to buy time in order to adjust the economy downward and reduce deficits, or to reschedule foreign debt servicing obligations. Initially, the former was largely dependent on the foreign debt servicing capacities of individual countries, and later also on the availability of foreign funding.

Table 6.7: Foreign debt of developing countries, 1977-1985 (billion US dollars unless otherwise stated)

<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Developing net debtor countries</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>332.4</td>
<td>565.0</td>
<td>731.5</td>
<td>826.6</td>
<td>878.7</td>
<td>918.3</td>
<td>995.5</td>
</tr>
<tr>
<td>Percentage of Exports&lt;sup&gt;2&lt;/sup&gt;</td>
<td>126.7</td>
<td>110.4</td>
<td>95.0</td>
<td>118.7</td>
<td>133.5</td>
<td>132.8</td>
<td>149.9</td>
</tr>
<tr>
<td>Percentage of GDP&lt;sup&gt;3&lt;/sup&gt;</td>
<td>24.9</td>
<td>25.7</td>
<td>27.7</td>
<td>30.6</td>
<td>32.6</td>
<td>33.6</td>
<td>35.5</td>
</tr>
<tr>
<td><strong>Countries with debt servicing problems&lt;sup&gt;4&lt;/sup&gt;</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>185.1</td>
<td>336.4</td>
<td>474.7</td>
<td>535.6</td>
<td>563.4</td>
<td>588.5</td>
<td>622.2</td>
</tr>
<tr>
<td>Percentage of Exports&lt;sup&gt;2&lt;/sup&gt;</td>
<td>171.7</td>
<td>167.4</td>
<td>174.1</td>
<td>221.5</td>
<td>243.0</td>
<td>236.5</td>
<td>258.0</td>
</tr>
<tr>
<td>Percentage of GDP&lt;sup&gt;3&lt;/sup&gt;</td>
<td>27.6</td>
<td>30.8</td>
<td>37.9</td>
<td>40.7</td>
<td>44.6</td>
<td>46.2</td>
<td>46.9</td>
</tr>
</tbody>
</table>

1) Due to adjustments, the 1977 and 1980 taken from April 1985 figures are not strictly comparable to other figures which were taken from October 1989.
2) Ratio of year end debt to exports of goods and services in year indicated.
3) Ratio of year end debt to GDP in year indicated.
4) Defined as those countries that incurred external payments arrears or entered official or commercial debt rescheduling agreements.


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6 The item "Use of reserves" in table 6.6 must be interpreted with the sign reversed.
As is shown in table 6.7 and particularly in the case of those countries that subsequently had to resort to debt rescheduling arrangements, total foreign debt more than doubled over the four years, 1977-1981, only to grow slower over the next four years and to increase by another third to reach almost a trillion dollars by 1985 for all developing net debtor countries. Of this amount, almost two thirds (622 billion dollars) was accounted for by the majority of countries that had to resort to rescheduling. The latter group of countries distinguished themselves from the general pattern of experience not so much in terms of the expansion of their debt but in their poorer capacity to service their debt obligations.

The latter was determined, firstly, by the already high level of debt incurred by them by 1977, namely, 171 percent of their export earnings compared with the average for all developing countries of only 126 percent. Secondly, the fact that this ratio deteriorated rapidly to 258 percent by 1985 compared with only 149.9 for the overall average reflects the crucial role played by the persistently poor performance of the export earnings of the countries that came to experience debt servicing problems. The actual debt service payments that include both interest and amortisation, claimed about one third of the latter's export earnings during the first half of the eighties, compared with half this ratio in the case of net debtor countries that did not experience debt servicing difficulties. Finally, and as will be explained later, the availability of foreign bank loan funds dwindled rapidly after 1981. According to table 6.6, "Other" (mainly private) net external borrowing by all developing net debtor countries declined from more than 75 billion dollars in 1981 to only about 15 billion dollars by 1985.

Apart from rescheduling and related arrangements, there was no alternative but to reduce their large current account deficits drastically to more manageable proportions over the longer term. As indicated in table 6.6, the current account deficits were subsequently reduced for all net debtor countries by almost sixty percent to 50.6 billion dollars between 1981 and 1985. Not indicated, however, was that the corresponding downward structural adjustment of the deficits for those countries with debt servicing difficulties was to the order of eighty percent.
Mexico was the first country that announced in 1982 that it could no longer voluntarily service its debt. In response to this, the foreign commercial banks cut back sharply on their lending to other developing countries. Table 6.6 shows that such external borrowing ("Other") fell dramatically in 1982 and that the current account deficits were largely financed through the use of foreign exchange reserves. Numerous countries started defaulting after this. The private banks could not accommodate the inability of their clients to service their foreign loans because many of the bank loans had been granted to governments. This was something the banks had not previously had to deal with (Mohr 1989: 8). The IMF and other international agencies had to intervene to help arrange a series of reschedulings to avert and postpone a world financial crisis. Table 6.6 shows how the crisis built up until 1982, after which the necessary structural economic adjustment measures started reflecting improvements. However, the foreign debt ratios increased rapidly until 1982, and slowed considerably afterwards (see table 6.7) even though the use of foreign funds to finance current account deficits had fallen. The situation was even worse for those countries already experiencing debt servicing problems. They were far more vulnerable to further external shocks such as the drying up of foreign bank finance.

The debt crisis was also exacerbated by the strengthening of the U.S. dollar which increased the domestic currency value of the dollar denominated debt. This occurred after the loans had been incurred with the result that the debt started from a high base. This meant that debt servicing (repatriated in the foreign currency) became a great deal more expensive and more difficult to honour without severe cutbacks in external current account deficits with drastic deflationary policies leading to lower growth and higher unemployment.

The flows to service foreign debt became greater than the flows of new funds to the developing countries. A result of the debt crisis was a net transfer of financial resources from debtor countries to creditor countries, i.e. from poor to rich countries. Even countries that had rescheduled their debt according to IMF guidelines were unable to

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7 Brazil and Argentina were also unable to meet their debt commitments.

8 The countries referred to here are those that were identified as being heavily indebted and in need of new foreign funds. They include Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Cote d'Ivoire, Ecuador, Jamaica, Mexico, Morocco, Nigeria, Peru, The Philippines, Uruguay, Venezuela, Yugoslavia.
improve their economic performances much at the time. The lead to withdraw foreign bank credits from developing countries was taken by the USA banks which started to restructure their balance sheets after 1984 by shifting an increasing portion of their assets away from the developing countries, on which they were having to write off bad debts, back to the USA home market. Many U.S. banks were, therefore, recalling maturing loans from developing countries and refusing to roll over shorter term loan facilities.

This structural deterioration in the terms of trade of primary export economies (including South Africa) and the subsequent foreign debt crisis of the eighties experienced by many developing countries, particularly those that either borrowed heavily during the late seventies or made excessive use of short-term borrowings in the early eighties (including South Africa), were not generally anticipated. Indeed these developments were initially recognised as cyclical economic manifestations of a temporary nature.

South Africa, also exposed to these international developments of declining terms of trade and increased short-term indebtedness, could also not escape the need to go through a traumatic period of structural economic adjustment after its debt crisis of 1985. Without further access to international balance of payments financial support, it had no other option but to constantly contract its imports by depressing the domestic economy with far-reaching socio-political consequences for the next decade.

6.2.5. The unexpected deterioration of South Africa's economic conditions exposed a new vulnerability to external developments

Contrary to the widely held optimistic views both locally and abroad regarding South Africa's economic prospects at the beginning of the eighties following the second oil price hike and unprecedented high gold price, the country found itself amongst the majority of developing countries with the need to reschedule its foreign debt by 1985. As indicated earlier, South Africa's previous pattern of economic stability and relative high growth was changed to one of instability and slower growth during the seventies after the first oil price crisis. During the first half of the eighties, following the second oil price crisis, the instability of the economy became more pronounced while the temporary high growth tended to decline, culminating in a partial debt standstill in the second half of
1985. In complete contrast to the anticipated prospects foreseen for South Africa during the eighties, its average GDP was to grow below the country's rate of population expansion, and fluctuate between more than five percent and nearly minus two percent (with three out of five years of negative economic growth). This new pattern of poor economic performance was to continue well into the first half of the nineties. South Africa's economic problem was, therefore, not only cyclical, but also structural in nature.

Table 6.8 illustrates how the country's balance of payments, considered for three consecutive four year periods from 1973 to 1984, swung from a current account deficit of 4.6 percent to GDP during 1973-76, to a surplus of 3.7 percent during 1977-80, only to revert to a 3 percent deficit during 1981-1984. These wide swings in the country's external current account demanded the greater use of compensatory foreign loans and credit flows in order to counter excessive fluctuations under the new system of floating exchange rates introduced since the early seventies. To function smoothly, this system required that foreign financial markets had to provide reliable sources of finance, on the one hand, while country clients had to ensure that their borrowing capacities were not strained by inadequate adjustments to changing economic conditions of a lasting nature, on the other.

Table 6.8: Fluctuations in South Africa's external current and capital account balances, 1973-1984

<table>
<thead>
<tr>
<th>Period</th>
<th>Current Account</th>
<th>Capital Account$^1$</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total (R millions)</td>
<td>Percentage to GDP</td>
</tr>
<tr>
<td>1973-76</td>
<td>-4568</td>
<td>-4.6</td>
</tr>
<tr>
<td>1977-80</td>
<td>6216</td>
<td>3.7</td>
</tr>
<tr>
<td>1981-84</td>
<td>-10678</td>
<td>-3.0</td>
</tr>
</tbody>
</table>

$^1$ Total capital movements not related to reserves.

As shown in table 6.8 by the flows of funds excluding changes in reserve related foreign liabilities, South Africa experienced a sizable net inflow of capital (2.7 percent of GDP) during 1973-76, followed by a net outflow during the next four years (1977-80), only to again see a subsequent net inflow of nearly 2 percent before 1985. The differences between these flows of funds, on the one hand, and the respective current account balances on the other, are mainly accounted for by changes in the country's reserve liabilities and its level of reserves. There can be no doubt that compared with the fixed price of gold system, South Africa had become much more dependent on foreign financial markets to stabilise its economy as a result of wide fluctuations in both its external current as well as capital accounts.

It is this newly acquired financial vulnerability that was to prove critical in creating an environment for the escalation of further sanctions against South Africa by the middle eighties when the country was faced with an unexpected and unmanageable foreign debt crisis. Compared with many other developing countries that also experienced foreign debt problems at the time, however, both the size and nature of the South African debt position was strikingly different as will be pointed out under the next section dealing with South Africa's peculiar foreign debt profile. It is useful, however, to first look more closely at South Africa's current account balances in the years before the 1985 financial crisis, and exactly how these were financed.

It will be recalled that table 6.8 clearly identified the four years (1981-84) prior to South Africa's partial debt standstill in 1985 (before the escalation of sanctions) as a period of large current account deficits. Not unlike the earlier four year period (1973-76) of large current account deficits also experienced after dramatic increases in the international gold price, these deficits were largely financed by relying on net capital inflows (other than capital movements related to reserves), and the use of reserves. This pattern was reversed when large surpluses on the current account were experienced during the four years 1977-80.

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An analysis of the annual financing of South Africa's current account balances for the period 1981-85 (table 6.9) shows that, firstly, the large deficit in 1981 was mainly financed by reserve related liabilities (R2.4 billion) and the use of reserves (R1.5 billion), whereas the deficit in 1982 was largely financed by private sector short-term inflows (R2.2 billion) as well as the long-term borrowing by public corporations and the private sector.

Secondly, the year 1983 showed a more or less balanced current account position (-R0.4 billion) thanks largely to a strong recovery in the price of gold (US dollars 424, average for the year), after falling rapidly in both 1981 (US dollars 460) and 1982 (US dollars 376) from an all-time peak in 1980 (US dollars 613). This initial recovery served to support the optimistic view about the South African economy, namely, that although it would in future be less stable as a result of the freeing of the gold price, this could largely be cushioned by compensatory capital movements as demonstrated in the past, and if need be by more frequent exchange rate changes. What was even more encouraging at the time, was the country's greatly improved terms of trade (including gold) compared with the pre-1972 era of fixed exchange rates. At the same time, there was reason for optimism as a result of the domestic political commitment to move away from apartheid by expanding non-white parliamentary representation, coupled with the new US foreign policy stance of constructive engagement in promoting this process. Although the price of gold weakened again by the end of 1982 and early 1983, there was ample confidence to take the first major step in dismantling South Africa's comprehensive exchange controls by abolishing the financial rand system in February 1983.
Table 6.9: The financing of South Africa's current account, 1981-1985  
(billions of South African rand unless otherwise stated)

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<tbody>
<tr>
<td>Current Account Balance (as percentage of GDP)</td>
<td>-4.2</td>
<td>-3.6</td>
<td>-0.4</td>
<td>-2.5</td>
<td>5.2</td>
</tr>
<tr>
<td></td>
<td>(-5.9)</td>
<td>(-4.5)</td>
<td>(-0.4)</td>
<td>(-2.3)</td>
<td>(4.2)</td>
</tr>
<tr>
<td>Total capital movements</td>
<td>2.7</td>
<td>3.6</td>
<td>1.1</td>
<td>2.8</td>
<td>-4.6</td>
</tr>
<tr>
<td>- Reserve related liabilities and valuation adjustment</td>
<td>1.8</td>
<td>-1.0</td>
<td>0.9</td>
<td>1.7</td>
<td>3.8</td>
</tr>
<tr>
<td></td>
<td>(2.4)</td>
<td>(-0.1)</td>
<td>(1.4)</td>
<td>(0.5)</td>
<td>(4.2)</td>
</tr>
<tr>
<td>- Non-monetary short-term private sector</td>
<td>0.5</td>
<td>2.2</td>
<td>0.3</td>
<td>-1.4</td>
<td>-7.8</td>
</tr>
<tr>
<td></td>
<td>(0.5)</td>
<td>(1.4)</td>
<td>(0.5)</td>
<td>(4.2)</td>
<td></td>
</tr>
<tr>
<td>- All other</td>
<td>0.4</td>
<td>2.4</td>
<td>-0.1</td>
<td>2.5</td>
<td>-0.6</td>
</tr>
<tr>
<td>Use of reserves</td>
<td>1.5</td>
<td>-0.1</td>
<td>-0.6</td>
<td>-0.4</td>
<td>-0.6</td>
</tr>
<tr>
<td>(Borrowing by developing countries with debt servicing problems from foreign commercial banks in billions of US dollars)</td>
<td>74.9</td>
<td>49.9</td>
<td>21.5</td>
<td>13.0</td>
<td>-9.4</td>
</tr>
</tbody>
</table>

1) Reserve related liabilities shown in brackets and included in total. The IMF borrowing in 1982 was offset by the repayment of short-term borrowings from foreign commercial banks.

2) Including errors and omissions in the calculation of the overall balance of payments, positioned here as a net capital outflow of private capital.

3) Mainly comprises long-term bond issues of public corporations and enterprises (1.3) as well as long-term non-monetary private issues (0.7) in 1982, and (1.7) and (0.8) respectively in 1984.

4) A plus means a decline and a negative an increase in reserves.

5) See IMF World Economic Outlook, October 1990.


Thirdly, 1984 unfortunately witnessed a decline in the average price of gold (US dollars 360) which continued to an all time low (US dollars 317) during 1985, while priority was again given to high internal growth and reducing unemployment at the expense of inflation and the current account of the balance of payments. As in 1981, real GDP increased by more than five percent, the external current account widened to an unsustainable position without the aid of large foreign borrowing, and as in 1981-82 the rand effectively depreciated by about 20 percent during 1984.
It is relevant to quote the Commission on the Monetary System and Monetary Policy (1984) on the considerations that shaped policy in 1981-82 at some length for a better understanding of how a similar set of problems was approached two years later. After first explaining that previously the authorities could not fully implement their anti-inflationary strategy decided on during 1980, the report continues to point out that,

"the South African economy was overtaken by the sharp decline in the gold price and the adverse effects of the world recession, which helped to transform the surplus on the current account of the balance of payments into a large deficit. To deal with the new set of problems confronting them, the authorities thereupon changed the order of their policy priorities. For the time being they gave higher priority to the financing (foreign borrowing) and adjustment (depreciation of the rand) of the balance of payments deficit than to curbing inflation.....They deemed it necessary to handle (the deficit) with the minimum disruption of production and employment." The Commission concludes as follows: "The alternative approach of maintaining the external value of the rand at a higher level by means of severely restrictive monetary policy (high real rates of interest) would have meant a lower rate of inflation, but was rejected because of the disruptive contractionary effects it would probably have had on domestic production, income and employment" (Commission 1984: 174).\footnote{The Monetary System and Monetary Policy in South Africa: Final Report of the Commission of Enquiry into the Monetary System and Monetary Policy in South Africa, RP 70/1984, paragraph 16.19.}

The current account shortages in both 1981-82 and again in 1984 could only be financed by relying on a positive inflow of foreign funds and the use of reserves. Both conditions were, however, non-sustainable if the economic prospects of the country including its capacity to service such foreign instruments and to replenish its reserves, were not favourable. Even in the shorter run, such a foreign financing strategy is a sensible course to take only if the assumptions hold that foreign funds continue to be readily available on the one hand, and the international financial markets continue to perceive the relevant borrowing country as a good risk, on the other. If either or both do not apply, the country is vulnerable to experience a liquidity crisis with debt rescheduling consequences. Over a longer period, a downward structural economic adjustment to ensure a sustained improvement in the country's current account is inescapable.

Finally, and as reference to table 6.9 indicates, the foreign financing strategy of the current account deficit worked in 1984. It, however, failed dramatically in 1985 when South Africa not only had to swing its current account deficit of 2.3 percent of GDP to a surplus of more than 4 percent of GDP, but also had to declare a partial debt standstill.
together with the suspension of the free movement of non-resident risk capital at the commercial rate of exchange, i.e. the reintroduction of the financial rand system. While the deficit in 1984 was mainly financed by long-term capital inflows as a result of public corporation borrowings as well as private sector issues, there was a massive net outflow of capital (R4.6 billion) in 1985 in spite of additional reserve related borrowings and the drastic improvement of the country’s current account within one year. The outflow mainly occurred via the non-monetary private sector (R7.8 billion). South Africa not only had to contend with the impact of a generally unexpected deterioration in its terms of trade on the current account of its balance of payments, but also with an unexpected outflow on its capital account at a time when foreign commercial banks had already discontinued their lending operations to developing countries to such an extent that the net flow from this dominant source had become negative. By 1985 many countries had already been forced to enter into debt rescheduling arrangements with their foreign creditor banks, and South Africa was about to join the ranks.

What made the experience much worse was the simultaneous deterioration in the availability of foreign commercial bank loan facilities mainly as a result of the overextended positions, particularly of US banks, and the drying up of surplus oil funds following the collapse of world oil prices. Table 6.9 shows how borrowing by those developing countries that also experienced debt servicing difficulties from foreign commercial banks declined annually after 1981 from about 75 billion US dollars on a net basis to only 13 billion US dollars three years later in 1984. The flow actually turned to a negative in 1985. This trend continued until the early nineties and was a major reason for the majority of developing countries, including South Africa, to resort to debt rescheduling arrangements while restructuring their economies to ensure more sustainable current account positions at lower rates of overall economic growth.

The relatively small size but vulnerable nature of South Africa’s foreign debt at the time will be briefly looked at below after first identifying the main reasons for the completely unexpected financial crisis of 1985 that clearly exposed South Africa’s new economic vulnerability, and triggered off an escalation of sanctions as the local socio-political environment deteriorated. The latter will be reviewed after considering South Africa’s foreign debt profile.
6.2.6. South Africa’s vulnerable foreign debt profile

South Africa’s foreign financial vulnerability did not lie in its high debt burden, as was the case in almost all other developing countries that had to resort to debt rescheduling arrangements by the middle eighties, but in the maturity structure of its foreign borrowings. Reference to table 6.10 shows that in terms of the ratio of foreign debt to exports for countries with, and without debt servicing problems during the first half of the eighties, South Africa must clearly be regarded as belonging to the latter category of developing countries. The same applies when judging South Africa’s foreign debt burden in terms of its ratio of foreign interest payments to export earnings.

Table 6.10: Comparative analysis of foreign debt burdens and maturities, 1981-1985 (percentages)

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<tr>
<td>Countries without debt-</td>
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<tr>
<td>servicing difficulties</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Debt to exports ratio</td>
<td>82.9</td>
<td>100.0</td>
<td>108.1</td>
<td>106.1</td>
<td>122.2</td>
</tr>
<tr>
<td>- Interest to exports ratio</td>
<td>6.6</td>
<td>7.6</td>
<td>7.4</td>
<td>7.8</td>
<td>8.3</td>
</tr>
<tr>
<td>- Short-term debt ratio 1)</td>
<td>17.3</td>
<td>18.8</td>
<td>19.3</td>
<td>18.9</td>
<td>18.3</td>
</tr>
<tr>
<td>Countries with debt-</td>
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<tr>
<td>servicing difficulties</td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>- Debt to exports ratio</td>
<td>174.1</td>
<td>221.8</td>
<td>243.3</td>
<td>236.8</td>
<td>257.1</td>
</tr>
<tr>
<td>- Interest to exports ratio</td>
<td>16.8</td>
<td>21.9</td>
<td>21.1</td>
<td>21.8</td>
<td>21.5</td>
</tr>
<tr>
<td>- Short-term debt ratio 1)</td>
<td>18.0</td>
<td>19.0</td>
<td>15.2</td>
<td>13.9</td>
<td>12.0</td>
</tr>
<tr>
<td>South Africa</td>
<td></td>
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</tr>
<tr>
<td>- Debt to exports ratio</td>
<td>87.8</td>
<td>111.2</td>
<td>113.0</td>
<td>123.6</td>
<td>127.7</td>
</tr>
<tr>
<td>- Interest to exports ratio</td>
<td>4.7</td>
<td>6.2</td>
<td>6.8</td>
<td>9.9</td>
<td>10.8</td>
</tr>
<tr>
<td>- Short-term debt ratio 1)</td>
<td>58.5</td>
<td>56.5</td>
<td>65.8</td>
<td>68.0</td>
<td>71.1</td>
</tr>
</tbody>
</table>

1) As percentage of total foreign debt.

Source: IMF (1990) and South African Reserve Bank (various issues).
Although South Africa's debt to exports ratio increased by about a third from 1981 to 1985, it still only came to 127.7 percent in 1985. This compared with 122.2 percent for countries without, and 257.1 percent for countries with debt servicing difficulties. So also South Africa's interest to export ratio more than doubled to 10.8 percent in 1985, compared with 8.3 percent on average in the case of countries without the need to reschedule their debt commitments on the one hand, and 21.5 percent in the case of the majority of developing debtor countries that experienced debt servicing difficulties, on the other.

South Africa's vulnerability was, however, to be found in its excessive dependence on short-term foreign debt at the time. The country did not suffer from a solvency problem, but from an acute liquidity problem. As table 6.10 clearly reveals, whereas the ratio of short-term to total debt for countries without debt problems remained more or less the same between 1981 and 1985, and actually declined by no less than 6 percentage points on average for countries with debt servicing difficulties, the ratio for South Africa increased by more than 12 percentage points to 71.1 percent. Moreover, South Africa's dependence on short-term foreign borrowing was already excessive in the early eighties, judged against the averages for developing countries both with and without debt servicing difficulties. Thus, whereas short-term debt accounted for about 19 percent of total debt in the case of both the latter in 1982, the corresponding ratio for South Africa was already 56.5 percent, nearly three times higher. By 1985 South Africa's ratio had become four times higher than the average for countries that did not have to reschedule their debts, and six times higher than that for countries that had to reschedule their debts.

An indication of the extent of South Africa's excessive reliance on short-term borrowing at the time can also be obtained by relating its short-term debt to its total imports, and comparing this ratio with that for developing countries with and without debt servicing difficulties, respectively. Such a closer analysis reveals that for the latter, the ratio of short-term debt to goods imported averaged 21.3 percent in 1982 and 25.2 percent in 1985. This corresponds more or less with a 90 day normal level of the value of credit lines necessary to finance a country's imports for a year, i.e. 25 percent. Foreign short-term borrowing much in excess of 25 percent of annual imports could of course be regarded as necessary from time to time to finance debt service payments, or capital outflows as well.
The short-term debt to imports ratio for countries with debt servicing difficulties averaged about 50 percent in 1982, and actually declined to 47 percent by 1985. This was about twice as high as the corresponding ratio for countries that did not experience debt servicing problems at the time. For South Africa, however, the corresponding ratio was 76 percent in 1982, and reached 186 percent by 1985. According to this indicator, South Africa was already relying heavily on short-term debt in 1982 to finance its balance of payments, equivalent to three times that which could normally be regarded as necessary to finance a country's imports. At the same time, the corresponding average for countries that were experiencing debt servicing problems was only double this norm. By 1985, South Africa was making use of short-term borrowings to finance its balance of payments needs no less than seven times greater than the level that could be regarded as normal practice to finance a country's imports.

No country could reasonably have sustained such excessively high levels of short-term borrowings, without running an unacceptably high risk of defaulting sooner or later. The higher the level of short-term debt rises above that regarded as normal for trade financing purposes, the closer such a borrower gets to what is regarded as its country credit ceiling by banks, all other things remaining the same. Two such important conditions, however, did not remain constant but changed unexpectedly. The one was the rapid drying up of foreign commercial banks' lending resources, and the other a growing capital outflow from South Africa. Under such circumstances it is inevitable that with the first signs of any refusal by a bank to roll over any of its short-term loan facilities, the risks to other creditors will escalate. Elsewhere in the developing world it had already become standard practice among banks that in order to protect their individual interests under such circumstances, they would collectively refuse to renew their short-term credit facilities and force a debt standstill which automatically ensured a subsequent orderly rescheduling of a country's debt on an equitable basis.

This is what happened in the case of South Africa in September 1985 when foreign private "financial sanctions" were imposed against the country by commercial banks to repay a large part of its inordinately high level of short-term debt. This immediately forced the authorities to impose a partial debt standstill and to reintroduce exchange control over non-resident equity investments in the form of the financial rand system. The affected debt accounted for no less than 57 percent of South Africa's total foreign debt at the time. The nature and impact of these private "financial sanctions" will be further examined in chapter 9. It only remains to emphasise here that the reasons for the
financial crisis were not only technically economic but also perceptively political in nature. With respect to the latter it is only necessary to recall the explanation given by the Governor of the Reserve Bank in September 1986 for South Africa's partial debt standstill and the re-imposition of exchange controls over non-resident investments a year earlier. Referring to the sudden refusal of particularly international banks to extend further short-term facilities to South Africa as financial "sanctions", he continues to explain as follows:

"These financial sanctions have resulted not in the first instance from conscious decisions by the government or legislatures but rather from the deterioration over this period in overseas perceptions of South Africa's socio-political situation. Foreign investors, bankers and businessmen have been troubled by uncertainty and concern about the nature, extent and possible consequences of South Africa's domestic political problems"..... "The result has been a substantial withdrawal of foreign capital and credits from South Africa for more than a year and a half now. Moreover, for political reasons, South Africa is not only denied normal access to credits from international banks and financial institutions and central banks, but is also required to repay existing credits to the International Monetary Fund. By force of circumstances South Africa has therefore become a capital-exporting country" (De Kock 1986: 37).

By the middle of the eighties, South Africa had no option but to convert its unsustainable external current account deficit of more than 2 percent of its GDP in 1984 to a surplus of more than 5 percent of its GDP in 1985. This was apart from having to declare a partial debt standstill with a view to rescheduling its excessive short-term foreign debt position which was rapidly becoming unsustainable with the drying up of foreign commercial bank lending to the developing world, as well as the growing outflow of capital from South Africa. These private financial sanctions together with the escalation of official sanctions as socio-political unrest continued unabated, forced South Africa to become a capital exporting country to the order of 2 to 3 percent of its annual GDP for the next decade. In other words, South Africa was faced with a long period of slow economic growth and rising unemployment. This prospect was the opposite to that held only a few years earlier, and in many respects also the least conducive to expect to achieve the desired political reforms of a new broadly based non-racial democracy. Contrary to expectations, these depressing economic conditions were to lead to the further escalation of sanctions against South Africa during 1985 to 1987.
6.3. Growing socio-political unrest and the escalation of sanctions

As was pointed out in chapter 5, the government entered the eighties strongly committed to the abolition of apartheid. However, it felt that it would attempt to do so at its own pace. It did not want the upheavals of any dramatic socio-economic and political reforms that would have negative economic effects, and thereby disrupt the country. The impact of the 1976 unrest had illustrated the cost of socio-economic and political turmoil. The unrest was bad for investor confidence. The government's first steps along this gradual and controlled process of reform were encouraging to both local and international observers. As a result there was an improvement in foreign relations. This would, however, prove short-lived as developments within South Africa during the early eighties were to put foreign supporters of the South African government's new reform programme in an embarrassing political position.

The South African President's Council, which replaced the Senate in 1980, was among other issues, to advise the government on the drafting of a new constitution. While matters of constitutional reform were being debated, concerted efforts were made to address some of the more important socio-economic grievances of the black communities. Although defence remained a large budgetary item, increased amounts of funds were being made available for education and health, particularly in an attempt to equalise salaries and benefits of staff members in the various racial groups in government departments. However, with the rapid rate of black urbanisation and an increasing inability to accommodate the influx of the newly urbanised in the formal economy, as reflected by the growing expansion of the informal sector, these expenditures proved insufficient to make a significant difference to the plight of the black community. The distinction for them between the conditions under the old apartheid system and the new movement towards a dispensation with improved prospects for blacks, was not very discernible.

Nevertheless, priority was given by the government to a continuation of the reform process particularly with the confidence at the prospects of an expanding economy. This confidence remained even after South Africa started experiencing balance of payments difficulties towards the end of 1981 as a result of the deterioration in its terms of trade.

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11 This was under the chairmanship of Dr. Denis Worrall.
It was felt, however, that such setbacks were temporary in nature and that any downward adjustment of the economy would place a strain on the reform programme (De Kock 1984: 174) which might cause unnecessary unrest. The Soweto riots were still fresh in the government’s mind. The anti-inflationary stance of the authorities was temporarily downgraded in the order of priorities, while balance of payments shortfalls could be bridged by foreign borrowing in a widely shared optimism regarding South Africa’s economic prospects after the second oil price hike.

The IMF was willing, towards the end of 1982, to make its loan facilities available to the South African government while foreign commercial banks continued to lend to the private sector, including parastatals, despite cutting back their lending operations in most of the developing world.

The Worrall Report was presented towards the end of 1982. Although its proposals were not immediately accepted, it gave a clear indication and confirmation of a change in direction within the leadership of the National Party. This resulted in a split in the National Party with Dr. Andries Treurnicht, who found power sharing unacceptable, breaking away to form the Conservative Party. The result was that the National Party was now unequivocally committed to reform away from apartheid. It could never rally political support around apartheid principles again.

The recommendations of the President’s Council for a new constitution were put to the enfranchised population in the form of a referendum in November 1983. Both the Conservative Party as well as the Progressive Federal Party opposed the referendum. The two thirds majority received for the "yes" vote clearly confirmed that a large portion of the white electorate was willing to move away from the apartheid policies of the past.

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12 This was in the form of $689 million from the IMF’s compensatory financing facility and $394 million as a standby arrangement (Parker 1983: 187).

13 The report called for the establishment of a consociational democracy. There would be a three chamber parliament sharing power with the Coloured and Indian minority groups. The different homelands would retain their independence while collaborating with South Africa on a confederal basis. On this basis the different groups could reach agreement by consensus rather than conflict (Barber and Barratt 1990: 288 and Davenport 1989: 467).

14 The Conservative Party was of the opinion that the reform was going too far, while the Progressive Federal Party felt it was not going far enough.
Although the abolition of apartheid was not final, the acceptance of a more representative constitution was considered to be a further step in the right direction by many of the Western governments. The majority of blacks still had no prospect of direct representation in central government at the time.

The response to the new constitutional proposals by black groups within South Africa was extremely negative. This was exacerbated by the fact that no tangible improvement in quality of life was forthcoming after socio-economic upliftment programmes were initiated despite positive economic growth and government efforts to this end. The exclusion of any form of participation in the new decision making process was strongly condemned, even by those that were supposed to be part of the process. In August 1983 the United Democratic Front (UDF), with strong trade union and church backing, was formed linking numerous domestic organizations that were opposed to the policies of the South African government. Its goals were similar to those of the ANC. These groups were able to mobilize and organize an increasing support base which could respond to any weaknesses in the government's reform programme and clearly express disapproval of the political system. The fact that the UDF was not banned, reflected the government's general confidence and greater tolerance towards opposition.

The South African government also felt confident regionally. It was having various foreign policy successes in southern Africa. It was containing SWAPO in South West Africa/Namibia and effectively applying pressure on those neighboring countries that were openly providing bases for ANC operatives against the apartheid regime. With

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15 Blacks were insisting on "the need for negotiation rather than the paternalistic process of 'reform from above' which the NP hoped to carry through" (Lipton 1990: 12).

16 Dr. Buthelezi of Kwazulu was opposed to interaction with South Africa as an independently administered homeland.

17 The trade union movement, which was given official recognition in the early eighties as a response to the Wiehahn and Rieckert Commissions' recommendations, had grown dramatically in membership. It was highly politicised and became increasingly important as an anti-apartheid organisation.

18 The leaders were considered to be the internal wing of the banned ANC. Later when the ANC was unbanned many of these leaders were absorbed, at high levels, into the ANC hierarchy.
raids into these territories as well as support for opposition movements (MNR in Mozambique)\textsuperscript{19}, the South African government was able to move the threat of the total onslaught away from its borders. The signing of the Nkomati Accord with Mozambique in 1984 was the culmination of this strategy (Barber and Barrett 1990: 267-295).

Although still economically and politically confident, the risk of misjudging a temporary upswing for a longer term trend was becoming increasingly evident by 1984. It was increasingly realized that South Africa could not sustain a high economic growth rate of more than 5 percent for more than a year, after an average growth rate of little more than minus 1 percent during the two previous years. The painful repercussions for countering the growing unrest and achieving political reform in a depressed economic climate were, however, still not contemplated at the time. These dangers were of course not confined to South Africa. Indeed the World Bank made the need for painful adjustments the main theme of its Development Report 1985. It warned as follows:

"A country that faces a shock (be it internal or external) that is considered to be temporary and reversible is justified in borrowing abroad for balance of payments purposes. In these circumstances it does not need to implement policies to restructure its economy. In practice, however, it is often difficult to distinguish beforehand between temporary and permanent shocks. Because of obvious political and social costs of adjustment, policy makers are inclined to err on the side of optimism. If they do, the price is a more painful adjustment later. Borrowing for balance of payments purposes is an inherently risky policy. The nature of the eventual adjustment will depend on the uses to which borrowed money is put. If it is used to raise investment, it provides the potential for extra output with which to meet future debt service. If borrowing is used to maintain or increase consumption, however, the economy's productive potential has not increased while debt service obligations have (World Bank 1985: 57-58).

A rapidly growing short-term foreign debt had allowed South Africa to postpone its downward adjustment programme, but not avoid it. The adjustment would now prove to be extremely painful, and jeopardise the process of constitutional reform.

\textsuperscript{19} This was part of a policy of destabilising the neighbouring countries in order to increase their dependence on South Africa and, thereby, strengthen South Africa's leverage over these countries who were supporting anti-apartheid forces.
The new constitution, still excluding black participation, was instituted towards the end of 1984 when the signs that South Africa was suffering from severe structural problems were starting to show. The economy which had experienced healthy growth in that year was being increasingly exposed to a weakening terms of trade which implied that the balance of payments could not continue to be supported by short-term borrowing to maintain the high rate of economic expansion. In order to counter this deteriorating position the authorities were forced to introduce severe deflationary policies. Both fiscal but especially monetary policy measures were used for this purpose\textsuperscript{20}. The economy responded quickly, but with increased unemployment and bankruptcies. In addition, a severe drought in the 1983/84 season caused the price of many of the basic foodstuffs to increase rapidly. These poor socio-economic conditions following a single year of high positive growth were exploited by the UDF and other anti-apartheid organizations to mobilize support against the government. The UDF was most effective in its resistance campaign countrywide by expressing their concerns through mass action, rent and service boycotts coupled with growing unrest\textsuperscript{21}.

The new and highly politicized trade union movement was able to encourage increased industrial action. The number of strikes increased dramatically from 336 cases in 1983 to 469, and 389 in 1984 and 1985 respectively as is shown in table 6.11. Even more dramatic were the number of black and colored workers involved in these growing strike actions. They increased from 61331 for blacks and 1415 for coloureds in 1983, to 174897 and 5304 in 1984, and 225045 and 12883 in 1985 respectively. The number of people involved in strike action reached a peak of 591421 in 1987, dropping to 161679 in 1988 only to reach 341097 in 1990. However, a significant difference from previous strikes, particularly after 1985, was the dramatic increase in the number Asians and whites involved. Strikes were therefore becoming more widespread across the racial spectrum.

The government was unhappy about the growing internal pressure for more rapid and meaningful political reform, and felt frustrated that its own reform programme was being undermined by unforeseen poor economic conditions. Initially, it tolerated the internal criticism while attempting to defuse its critics by accelerating the reforms. Some

\textsuperscript{20} The prime overdraft rate reached an all time high of 25 percent by the end of 1984, against an annual rate of inflation of less than half this figure.

\textsuperscript{21} Barber and Barratt (1990: 304) are of the opinion that it was the presence of effective black organisations such as the trade unions, UDF, AZAPO and Inkatha who were able to articulate the grievances that made the resistance more effective than was the case with the 1976 riots.
of the more significant reforms were the suspension of forced removals and the repealing of the Mixed Marriages Act (1985), the acceptance in principle of one citizenship for all South Africans, including those of the independent homelands (1986) and the lifting of influx control to the urban areas (1986). Positive steps were also taken earlier in encouraging socio-economic development with the formation of the Small Business Development Corporation (SBDC) as well as the Development Bank of Southern Africa (DBSA) in 1980 and 1983 respectively. Decentralisation as an apartheid policy was reviewed, while labour relations machinery was revamped. These changes were still, however, unable to accommodate or neutralise the ever growing demands of the internal anti-apartheid movements which portrayed these developments as attempts by government to retard the reform process, and even to consolidate apartheid rather than to deal with the fundamental changes to do away with apartheid.

Table 6.11: Number of strikes and total workers involved (including racial breakdown), 1981-1990

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of strikes</th>
<th>Workers involved</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Blacks</td>
<td>Coloureds</td>
<td>Asians</td>
<td>Whites</td>
<td>Total</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1981</td>
<td>342</td>
<td>84706</td>
<td>6271</td>
<td>1865</td>
<td>0</td>
<td>92842</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1982</td>
<td>394</td>
<td>112481</td>
<td>17920</td>
<td>1170</td>
<td>0</td>
<td>141571</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1983</td>
<td>336</td>
<td>61331</td>
<td>1415</td>
<td>1712</td>
<td>0</td>
<td>64469</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>1984</td>
<td>469</td>
<td>174897</td>
<td>5304</td>
<td>1725</td>
<td>11</td>
<td>181942</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1985</td>
<td>389</td>
<td>225045</td>
<td>12883</td>
<td>1879</td>
<td>16</td>
<td>239816</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1986</td>
<td>793</td>
<td>400775</td>
<td>13944</td>
<td>1366</td>
<td>255</td>
<td>424340</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1987</td>
<td>1148</td>
<td>572076</td>
<td>16359</td>
<td>2266</td>
<td>90</td>
<td>591421</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1988</td>
<td>1025</td>
<td>138653</td>
<td>16573</td>
<td>6308</td>
<td>145</td>
<td>161679</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>1989</td>
<td>855</td>
<td>163757</td>
<td>25969</td>
<td>6605</td>
<td>1446</td>
<td>197504</td>
<td></td>
<td></td>
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<tr>
<td>1990</td>
<td>855</td>
<td>292480</td>
<td>36530</td>
<td>9098</td>
<td>2989</td>
<td>341097</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: South Africa Institute of Race Relations (various issues).

The build-up of resistance reached a peak when police opened fire on a crowd at Langa, in the eastern Cape while commemorating the Sharpeville shootings of 1960. The response to this was escalating mass mobilisation countrywide, which provoked further harsh police action in dealing with the growing unrest. The result was that by 20 July
1985 it was regarded necessary to impose a state of emergency in an attempt to deal with the spreading violence, and the need to restore law and order. This also effectively put a halt to all plans of further reform with immediate internal security matters demanding top priority.

The international community led by the major industrialised nations had initially supported all reform measures away from apartheid. The new constitution was seen as a major step in the right direction, but never as the final solution. The governments of these countries still remained on the defensive, however, as pressure from anti-apartheid groups within their countries was growing\textsuperscript{22}. Prominent South Africans\textsuperscript{23}, highly critical of apartheid, were also gaining increased international exposure and openly condemning the South African government's reform programme. Even with such growing pressure the governments of these leading countries were not willing to respond to the calls for increased sanctions as they felt that the South African government was after all making definite progress towards an accommodating and peaceful internal political settlement.

However, as the unrest escalated and the concomitant police response appeared more brutal and unprovoked on international television, sentiment against South Africa abroad gained momentum. The country was constantly in the news which portrayed the unfavourable and unjust local conditions as a direct result of apartheid, while anti-apartheid activists abroad, particularly in the United States, increased media awareness of the situation in South Africa by co-ordinating demonstrations against South Africa. These demonstrations were at the time in themselves newsworthy. Perhaps the best example was the visible episode created by the sit-ins at the South African embassy in Washington, which had been initiated by Randall Robinson of TransAfrica. These sit-ins and consequent arrests of individuals with celebrity status caused South Africa to be viewed as one of the most important current issues within America. The embarrassment of being positively associated with South Africa at the time provided many of the non-governmental anti-apartheid organisations with an opportunity to successfully apply pressure on state and local authorities to reduce their business and investment ties with South Africa. The policy of demanding divestment also brought about successful

\textsuperscript{22} The build up of grass roots anti-apartheid support within the industrialised countries had been recommended at the International Conference on Sanctions against South Africa held in Paris in 1981. (See chapter 5).

\textsuperscript{23} Bishop Desmond Tutu had won the Nobel Prize for peace in November 1984.
disinvestment. Many companies with South African links were excluded from tendering for lucrative state and local authority contracts. In the USA, where the race issue was a very sensitive one, these anti-apartheid groups were effective as they had broad support from the Democratic Party. The party which had suffered a substantial defeat to Reagan in the 1984 Presidential elections, used the South African situation to mobilise support against Reagan by attacking his policy of constructive engagement. In the UK, the Anti-Apartheid Movement (AAM) held protest rallies in front of the Court of St. James and organised numerous artists to support concerts in honour of the ANC and the AAM. The UN also blacklisted celebrities that performed in South Africa. All these highly visible demonstrations had the effect of labelling those parties that were not in favour of the use of sanctions against South Africa as being pro-South African and racist, a label which most parties and firms wanted to avoid.

The growing pressure within the major industrialised countries affected their governments to such an extent that they warned the South Africa government that it would become impossible to stem the anti-South African tide unless there were further steps along the reform path, and a deliberate policy to avoid the oppressive tactics being used to deal with the increasing unrest. They anticipated that far-reaching steps would be announced in this direction at the National Party conference in Durban on 15 August 1985. However, contrary to expectations, President Botha

"promised no significant initiatives, (while) his tone was defensive, his style defiant. He acted as a party leader speaking to the faithful, not a statesman struggling with the problems of a complex society." (Barber and Barratt 1990: 321).

The international community, particularly the USA, Britain and West Germany, who had been at the forefront in containing the demand for the use of further pressure, including sanctions, against South Africa, was deeply distressed by the lack of any significant new announcements in what came to be known as Botha's Rubicon speech.

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25 "The CAAA of 1986 would be the first override of the presidential veto regarding foreign policy in Reagan's two terms in office. This rendered the popular president out of step with the country. Creating an anti-Reagan coalition that included not just the Black Caucus and the left, but also moderate Democrats and even conservative Republicans was extraordinary so soon after the 1984 election. Enacting policy over a presidential veto was even more remarkable."(Martin 1987: 64).

26 The record titled Sun City, to protest against other international artists participating at the resort, was brought out by Artists Against Apartheid and reached the charts in many European countries.
This negatively affected the financial markets and provided the catalyst for a capital outflow which triggered the partial debt standstill discussed earlier. The anti-apartheid organisations used the speech as a sign of the intolerance and lack of commitment to change on the part of the South African government. They claimed that the only peaceful way left to influence and apply pressure on the government was through the imposition of further sanctions. The Rubicon speech no doubt gave additional momentum to the drafting of anti-South African sanctions legislation in the US Congress that had already been initiated by anti-apartheid organisations within the US. In order to defuse the USA sanctions campaign that was gaining favour rapidly, President Reagan decided to pre-empt the issue by imposing his own limited sanctions through an Executive Order by late 1985. This was clearly contrary to his previous approach, but it was the only way for him to be seen to be doing something against South Africa, while at the same time preventing more severe measures being imposed.

Attempts were also made by the British in the Commonwealth through the Eminent Persons Group (EPG) to defuse the call by the majority of the members of the Commonwealth, particularly the Frontline States, for increased pressure against South Africa. Early in 1985, with local unrest increasing, the EPG was sent to Pretoria in an attempt to get negotiations between a wide range of political organisations underway. This mission was, however, scuttled as a result of the raids into neighbouring countries by the South African Defence Force (SADF) at the time. This antagonised the international community further as the Defence Force’s action was portrayed as a blatant transgression of the neighbouring countries’ sovereignty. In addition, the international community was becoming increasingly impatient about suspected delaying tactics on the part of the South African government in granting independence to South West Africa/Namibia. All these developments culminated into irresistible justification for the imposition of further sanctions against South Africa.

During the course of the next two years (1985-1987) many governments imposed a range of different sanctions against South Africa in an attempt to stem the political tide of the anti-South African feeling within their countries. Perhaps the most significant measure was the passage of the Comprehensive Anti-Apartheid Act of 1986 (CAAAA) in the USA when Congress overrode the Presidential veto against the imposition of a range of sanctions against South Africa with provision for their escalation as well as universal application. Chapter 8 sets out the scope and examines the nature of the sanctions imposed against South Africa between 1985 and 1987.
The foregoing analysis has shown that contrary to the favourable prospects and without the fear of an escalation of sanctions, which were shared widely both locally and abroad during the early eighties, South Africa was in fact faced with a major escalation of sanctions by the middle eighties. The optimistic outlook had been based at the time on the official commitment by the South African government that it was to embark on a policy of abolishing apartheid with the confidence that the country’s economy was about to enter a new era of prosperity that would both accelerate the process of undermining apartheid, and provide the necessary resources to further uplift the majority of the black, coloured and Asiatic populations. Like so many other developing countries, however, South Africa was to struggle with a prolonged recession, a foreign debt crisis, growing unemployment and socio-political unrest, but contrary to experience elsewhere, the situation was aggravated by a wave of new sanctions measures against the country between 1985 and 1987. The following chapter will show that contrary to the past pattern of events where sanctions escalated during periods of recession, both the economic and political conditions in South Africa continued to deteriorate afterwards but without the further escalation of sanctions.
CHAPTER 7

THE ECONOMIC AND POLITICAL CRISES CONTINUE BUT WITHOUT AN ESCALATION OF SANCTIONS

7.1. Introduction

The escalation of sanctions during 1985 to 1987 was a blow to the South African government, more so politically than economically. These further measures were imposed at a time when South Africa was experiencing unanticipated poor economic conditions of a persistent nature and dramatised by a foreign debt crisis, conditions which made the country particularly vulnerable to such external political actions. These unexpected actions gave the impression to the government that the international community was not appreciative of the complexity of the situation in South Africa, and of the reforms away from apartheid that had already been undertaken. Under these circumstances and in view of the growing socio-political unrest, the South African government reduced its concern regarding the new adverse foreign opinion against apartheid and concentrated instead on dealing with the deteriorating domestic security and economic conditions.

The purpose of this chapter is to show briefly that, although there was still pressure for more sanctions from many of the major industrialised countries, no escalation of any consequence was experienced, despite the fact that initially there was no further considerable progress in the reform process, while socio-economic conditions continued to deteriorate. To place South Africa's deteriorating economic conditions into perspective after the 1985-1987 sanctions, the situation in other developing countries that also experienced debt servicing difficulties will be highlighted. An evaluation of the actual macro-economic impact of the new set of sanctions introduced in the middle eighties will be given in chapter 9.
<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td><strong>Real GDP (annual percentage change)</strong></td>
<td>3.5</td>
<td>-1.8</td>
<td>2.7</td>
<td>3.3</td>
<td>3.5</td>
<td>2.5</td>
<td>1.9</td>
<td>1.6</td>
<td>-0.7</td>
</tr>
<tr>
<td><strong>Gross investment to GDP (percentage)</strong></td>
<td>26.0</td>
<td>19.5</td>
<td>18.3</td>
<td>18.5</td>
<td>19.2</td>
<td>19.8</td>
<td>20.1</td>
<td>19.1</td>
<td>19.6</td>
</tr>
<tr>
<td><strong>Consumer prices-median(^2) (annual percentage change)</strong></td>
<td>12.4</td>
<td>14.1</td>
<td>14.4</td>
<td>15.0</td>
<td>14.0</td>
<td>16.5</td>
<td>14.8</td>
<td>12.6</td>
<td>12.1</td>
</tr>
<tr>
<td><strong>Current account balance (average in US dollars billions)</strong></td>
<td>-34.4</td>
<td>-13.6</td>
<td>-5.9</td>
<td>-4.4</td>
<td>-15.6</td>
<td>-6.7</td>
<td>-6.9</td>
<td>-6.1</td>
<td>-6.3</td>
</tr>
<tr>
<td><strong>Net official borrowing (average in US dollars billions)</strong></td>
<td>9.8</td>
<td>31.3</td>
<td>25.2</td>
<td>16.9</td>
<td>19.9</td>
<td>21.7</td>
<td>14.4</td>
<td>20.7</td>
<td>27.1</td>
</tr>
<tr>
<td><strong>Net commercial bank borrowing (average in US dollars billions)</strong></td>
<td>49.3(^3)</td>
<td>21.5</td>
<td>13.0</td>
<td>-9.4</td>
<td>-5.7</td>
<td>-3.8</td>
<td>-15.3</td>
<td>-2.4</td>
<td>-7.4</td>
</tr>
<tr>
<td><strong>Total foreign debt (as percentage of exports)[excluding IMF credit]</strong></td>
<td>221.8(^3)</td>
<td>243.3</td>
<td>236.8</td>
<td>236.8</td>
<td>257.1</td>
<td>306.2</td>
<td>303.0</td>
<td>251.6</td>
<td>245.4</td>
</tr>
</tbody>
</table>

1) 72 countries that incurred external debt repayment difficulties after the mid-eighties out of a total of 124 net debtor countries.
2) 1972-81 and 1982-89.
3) For end of 1982 only.

7.2. Poor economic performance of countries that experienced debt servicing problems after the early eighties

As argued earlier in chapter 6, the escalation of sanctions in the middle eighties was both the result and cause of South Africa’s poor economic performance. The 1985-87 sanctions were introduced at a time when the South African economy had become particularly vulnerable to external global shocks in the form of a sharp deterioration in its terms of trade together with the sudden scarcity and high cost of foreign bank loans. These setbacks were also experienced by most other developing countries resulting from the disinflationary policies pursued by the major industrialised countries at the time, in response to the second oil price hike of 1979-1980. These external economic shocks were widely experienced and subsequently proved to be of a structural rather than a temporary nature. This made it necessary for many affected developing countries to introduce painful socio-political structural economic adjustments after a series of foreign debt reschedulings which started with Mexico in 1982. The result was, on the one hand, an era of reduced capital formation together with slower economic growth but without any improvement in high inflation rates and, on the other, an era with smaller current account deficits together with rising foreign debt levels. The ratio of the latter only started to decline at the end of the eighties as exports improved.

These trends are reflected in the accompanying table (table 7.1). It contrasts the economic performance during 1983 to 1990 of developing countries that experienced debt servicing difficulties, with their performance during the previous eight years. The South African experience, also as a country with debt servicing problems after the middle eighties, will be examined against this background below.

Reference to table 7.1 shows that the average real GDP growth of the affected developing countries between 1983 and 1990 was, with only one exception (1986), below the average for the previous eight years. This was largely due to the stabilisation policies that these countries had to adopt in order to meet their new rescheduled debt obligations. It is also important to point out how, during the eighties, they continued to run deficits on their current accounts, albeit at much reduced levels. The average current account balance in billions of US dollars dropped to less than one quarter (average 8 billion dollars) for these affected countries after 1983, compared with the large deficits
experienced during the previous eight years (average 34.4 billion dollars). The severe deflationary policies led to a fall in investment levels and an improvement in their deficit current account positions, but without any considerable reduction in price inflation. The result was slow growth with rising unemployment and unchanged higher costs of living.

It should be noted that the large net inflow of commercial bank funds that played such a major role in financing the large current account deficits of these countries during the second half of the seventies and early eighties, thereby boosting their total foreign debt to more than two and a half times their export earnings by 1985, was drastically reversed to a negative flow after the middle eighties. Net official borrowing, however, compensated partly for this declining role of private bank funds, in contrast to the supplementary role official borrowing played during the previous eight years. It was only after 1987 that the total foreign debt of these countries started to decline relative to their export earnings, and to regain by 1990 their average 1982-83 debt position of just less than 250 percent when their foreign debt crisis was triggered off.

7.3. South Africa’s poor economic performance after the 1985-1987 imposition of non-escalating sanctions

Turning to the South African balance of payments’ experience as summarised in table 7.2, it will immediately be seen that its foreign debt ratio was only half (average 107.6 percent for 1985-1987 and 126.1 percent in 1985) the average for all other countries that also had debt servicing difficulties at the time (257.1 in 1985 and 306.2 percent in 1986 according to table 7.1). In fact South Africa’s debt to export ratio compared with the average for developing countries without debt servicing difficulties, namely 122.2 in 1985 and 131.6 percent in 1986 (IMF 1990). Judging by this measure alone, South Africa could hardly have been regarded as a candidate for serious debt servicing difficulties that would have required debt rescheduling arrangements at the time.
Table 7.2: South Africa's balance of payments position before (1980-84) and after (1985-1992) the imposition of sanctions (in R billions at current prices).

<table>
<thead>
<tr>
<th>Year</th>
<th>Current account</th>
<th>Capital account(^1)</th>
<th>Reserves to import ratio(^2)</th>
<th>Debt to export ratio(^3)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980-84 (average)</td>
<td>-1.6</td>
<td>0.9</td>
<td>10.5</td>
<td>96.5</td>
</tr>
<tr>
<td>1985-87 (average)</td>
<td>6.1</td>
<td>-5.7</td>
<td>8.1</td>
<td>107.6</td>
</tr>
<tr>
<td>1988</td>
<td>3.4</td>
<td>-6.9</td>
<td>6.8</td>
<td>79.3</td>
</tr>
<tr>
<td>1989</td>
<td>3.5</td>
<td>-4.7</td>
<td>5.6</td>
<td>78.2</td>
</tr>
<tr>
<td>1990</td>
<td>5.3</td>
<td>-2.4</td>
<td>5.6</td>
<td>69.4</td>
</tr>
<tr>
<td>1991</td>
<td>6.2</td>
<td>-4.8</td>
<td>6.7</td>
<td>65.3</td>
</tr>
<tr>
<td>1992</td>
<td>3.9</td>
<td>-6.2</td>
<td>8.1</td>
<td>61.1</td>
</tr>
</tbody>
</table>

1) Excluding transactions related to reserves.
2) Imports covered by reserves in number of weeks.
3) Percentage ratio in terms of USA dollars.

Source: South African Reserve Bank (1993) and South African Reserve Bank (various issues).

As was explained earlier in chapter 6, section 6.2.6, South Africa's foreign debt problem lay not in the relative size of its foreign debt, but in its completely unbalanced maturity structure that eventually forced it to declare a partial debt standstill. Moreover, unlike the position with other developing countries with debt servicing difficulties, South Africa did not have access to foreign sources of finance other than from the private markets, due to sanctions. It had no option other than to adjust its economy more rapidly by contracting imports and promoting exports to generate and maintain large surpluses on its current account in order to meet its rescheduled debt repayments in future. In addition, it needed to rebuild its depleted foreign exchange reserves. As a result, the depressed domestic economic conditions which were regarded earlier in the eighties as of a transitory nature only, had to be endured for many years to come. The dubious advantage was that South Africa's already favourable debt position soon continued to improve to levels that were even better than those for net debtor developing countries which did not experience any debt servicing problems during the eighties.
A comparison of table 7.1 and 7.2 shows that although South Africa, like most other debt-stricken developing countries, could not escape the net outflow trend in commercial bank borrowing after 1985, it could not rely on either compensatory official borrowing or other private borrowing\(^1\), let alone direct foreign investment to meet its rescheduled foreign debt obligations. In contrast, the net outflow of foreign commercial bank funds from most other developing countries in the years after 1985 was more than compensated for by net official borrowing. Table 7.1 shows that an opposite pattern was being experienced during the period 1974-1982 when these countries had a net inflow from commercial bank borrowing more than five times that from official resources. On average, these countries enjoyed a steady net inflow after 1985 from sources other than private banks of about 2 percent of GDP which greatly reduced the extent to which they had to reduce their current account deficits, and also helped to replenish their reserves.

Unlike many other developing countries that were also forced to reschedule their debt, South Africa experienced a consistent net outflow of capital of about 2 percent of GDP. This had to be financed almost exclusively from promoting exports. Table 7.3 indicates how South Africa's savings available for capital formation were systematically eroded after 1985, firstly, by the net outflow of funds mainly in the form of rescheduled debt repayments (column 4) and, secondly, by government dissaving (column 3), all in terms of current values. Whereas the country's net national savings were larger than its domestic savings during the first half of the eighties, it averaged less than 40 percent of the latter during the escalation of sanctions (1985-87) and slightly more than 60 percent afterwards (1988-92).

The position initially improved after the escalation of sanctions (1988 and 1989), but deteriorated again from 1990 when about half South Africa's net domestic savings were used to finance a net outflow of funds including the replenishment of reserves. It was also since the nineties that the government dissaving accelerated rapidly to diminish the available positive personal and corporate savings by almost 70 percent in 1992.

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\(^1\) Leape (1991a and 1991b) highlights not only the detail of the First, Second and Third Interim Arrangements but also the difficulty in rolling over other loans or getting new funds. Also see Ovenden and Cole (1989).
Table 7.3: Net domestic and foreign savings before (1980-84) and after (1985-1992) the imposition of sanctions (in R billions at current prices)

<table>
<thead>
<tr>
<th>Year</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Net domestic saving</td>
<td>Personal and corporate saving</td>
<td>General government saving</td>
<td>Foreign saving</td>
<td>Net national saving</td>
</tr>
<tr>
<td>1980-84 (average)</td>
<td>8.9</td>
<td>8.2</td>
<td>0.7</td>
<td>1.6</td>
<td>10.5</td>
</tr>
<tr>
<td>1985-87 (average)</td>
<td>9.7</td>
<td>11.7</td>
<td>-2.0</td>
<td>-6.1</td>
<td>3.6</td>
</tr>
<tr>
<td>1988</td>
<td>13.0</td>
<td>15.1</td>
<td>-2.1</td>
<td>-3.3</td>
<td>9.7</td>
</tr>
<tr>
<td>1989</td>
<td>15.9</td>
<td>17.9</td>
<td>-2.0</td>
<td>-3.5</td>
<td>12.4</td>
</tr>
<tr>
<td>1990</td>
<td>11.0</td>
<td>12.8</td>
<td>-1.8</td>
<td>-5.3</td>
<td>5.7</td>
</tr>
<tr>
<td>1991</td>
<td>11.8</td>
<td>16.3</td>
<td>-4.5</td>
<td>-6.2</td>
<td>5.6</td>
</tr>
<tr>
<td>1992</td>
<td>7.2</td>
<td>23.6</td>
<td>-16.4</td>
<td>-3.9</td>
<td>3.3</td>
</tr>
</tbody>
</table>

Note: Column 1 = 2 + 3, while 5 = 1 + 4

1) After provision for depreciation
2) Including public corporations
3) Including changes in foreign reserves

Source: South Africa Reserve Bank (1994).

Thus, although sanctions ceased to escalate after 1985-87, net national savings declined from an average of R11 billion during 1988-89 to less than half this amount during 1990-91, and to only R3.3 billion by 1992. The situation was, of course, much worse if the fact that the internal value of the rand more than halved during the second half of the eighties is also taken into account. It was not only regular foreign dissaving but also growing government dissaving that were responsible for South Africa’s deteriorating capacity to achieve and maintain a high economic growth rate during the second half of the eighties, and particularly since the nineties.
Table 7.4: Economic growth, investment and inflation before (1980-84) and after (1985-1992) the imposition of sanctions

<table>
<thead>
<tr>
<th>Year</th>
<th>GDP per capita(^1)</th>
<th>GDP(^1)</th>
<th>Gross domestic fixed investment(^1)</th>
<th>Inflation (CPI)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980-84 (average)</td>
<td>0.4</td>
<td>3.0</td>
<td>3.8</td>
<td>13.5</td>
</tr>
<tr>
<td>1985-87 (average)</td>
<td>-2.1</td>
<td>0.3</td>
<td>-10.2</td>
<td>17.0</td>
</tr>
<tr>
<td>1988</td>
<td>1.8</td>
<td>4.2</td>
<td>12.6</td>
<td>12.7</td>
</tr>
<tr>
<td>1989</td>
<td>0.0</td>
<td>2.4</td>
<td>6.5</td>
<td>14.7</td>
</tr>
<tr>
<td>1990</td>
<td>-2.6</td>
<td>-0.3</td>
<td>-2.3</td>
<td>14.4</td>
</tr>
<tr>
<td>1991</td>
<td>-3.3</td>
<td>-1.0</td>
<td>-7.4</td>
<td>15.3</td>
</tr>
<tr>
<td>1992</td>
<td>-4.4</td>
<td>-2.2</td>
<td>-6.2</td>
<td>13.9</td>
</tr>
</tbody>
</table>

1) Annual percentage change at constant 1990 prices


An analysis of South Africa's record of fixed capital formation and GDP growth on the one hand, and of inflation after the escalation of sanctions during 1985-87, on the other, is given in table 7.4. It is clear that whereas the country's moderate rate of inflation remained remarkably stable during the eighties, accelerating during the escalation of sanctions and moderating afterwards, the real rate of capital formation more or less followed the pattern of decline suffered by the country's national savings capacity mentioned above. The real investment rate first improved dramatically during 1988 and 1989, but resumed its negative trend in the nineties as the country's inability to sustain an economic growth rate of about 4 percent without accelerating inflation and inviting another balance of payments crisis became abundantly clear.

The South African economy did not only suffer from the sanctions that were imposed during 1985-87 and ceased to escalate afterwards, but from severe structural limitations to grow at a rate in excess of its population growth trend of about 2.5 percent annually. Reference to table 7.4 shows how the average economic growth rate (GDP) of 3 percent during the first half of the eighties declined to an average of 0.3 percent during the subsequent escalation of sanctions (1985-87). It recorded a rate of just more than 4 percent in 1988, only to deteriorate again to a level of 2.4 percent in line with the rate of population growth in 1989, and to turn negative subsequently. It is important to note that
these depressed economic conditions persisted without the further escalation of sanctions, and without any further considerable deterioration in South Africa’s foreign terms of trade (including gold). As pointed out in chapter 6, the latter had fallen by more than 16 percent between 1980 and 1985 against all expectations. It subsequently fluctuated between plus 6 and minus 4 percent until 1992.

As can also be seen from table 7.4, with the single exception of 1988 when South Africa’s economic growth rate exceeded its population growth trend by 1.8 percent, and matched it in 1989, the country experienced negative GDP per capita growth rates between 1985 and 1992. This deteriorating position accelerated between 1990 and 1992. Indeed, indicators are that between 1985 and 1992 less than 9 percent of the people that joined the labour force could find gainful employment in the more or less stagnant economy.

Table 7.5: Employment and unemployment (South Africa including TBVC states), 1991

<table>
<thead>
<tr>
<th>Variable</th>
<th>Number ('000)</th>
<th>Percentage of labour force</th>
</tr>
</thead>
<tbody>
<tr>
<td>Labour force</td>
<td>13875</td>
<td>100.0</td>
</tr>
<tr>
<td>Formal employment</td>
<td>7799</td>
<td>56.6</td>
</tr>
<tr>
<td>Outside formal sector</td>
<td>5986</td>
<td>43.4</td>
</tr>
<tr>
<td>Informal sector(^1)</td>
<td>2400</td>
<td>17.4</td>
</tr>
<tr>
<td>Unemployed</td>
<td>3586</td>
<td>26.0</td>
</tr>
</tbody>
</table>

\(^1\) Persons primarily dependent on the informal sector, including one million in subsistence agriculture.

Source: Central Economic Advisory Services (1993).

The results from table 7.5 suggest that almost 45 percent of South Africa’s labour force were either engaged in informal economic activity, or unemployed by 1992. This amounted to 5.986 million out of 13.875 million people. It remains to point out here that under these circumstance socio-political stability as well as business confidence continued to deteriorate after 1987 as may have been expected, but contrary to past experience there was no further escalation of sanctions under these deteriorating conditions.
7.4. Sagging business confidence and growing unrest but without the further escalation of sanctions

In the previous chapter it was pointed out that the history of sanctions against South Africa prior to 1985-87 followed a cyclical pattern of escalation when socio-political unrest was experienced under apartheid in times of economic recession. This pattern of events could also be largely explained in terms of Frey’s (1984: 118) "international political cycle of sanctions" experienced internationally, as explained in chapter 4. Although the 1985-87 sanctions originally displayed the same predictable conditions of selective escalation during a period of economic recession and socio-political unrest, it subsequently turned out quite differently because no further sanctions were imposed at the height of the unrest in the late eighties.

7.4.1. Deteriorating business confidence

The period immediately after the imposition of the 1985-87 sanctions, with the exception of 1988, continued to reflect depressed economic conditions. The severity of this recession was aggravated by South Africa's partial debt standstill which coincided with a universal negative flow of funds from developing country borrowers to foreign commercial banks in 1985. This was followed by the escalation of sanctions at a time when the South African economy was particularly vulnerable, both factors ensuring that the country's recovery would be long and difficult. South Africa was in fact facing a structural and not a cyclical problem as in the past. This persistent deterioration in socio-economic conditions is reflected in the indices such as various workers' strikes (see table 6.11) and poor business confidence (see table 7.6).
Table 7.6: South African Chamber of Business: Business confidence index, 1985-1992

<table>
<thead>
<tr>
<th>Year</th>
<th>Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>1985</td>
<td>105.0</td>
</tr>
<tr>
<td>1986</td>
<td>97.5</td>
</tr>
<tr>
<td>1987</td>
<td>107.4</td>
</tr>
<tr>
<td>1988</td>
<td>107.4</td>
</tr>
<tr>
<td>1989</td>
<td>101.6</td>
</tr>
<tr>
<td>1990</td>
<td>100.0</td>
</tr>
<tr>
<td>1991</td>
<td>93.2</td>
</tr>
<tr>
<td>1992</td>
<td>90.6</td>
</tr>
</tbody>
</table>

Source: South African Institute of Race Relations, (various issues).

Table 7.6 shows that business confidence gradually deteriorated after 1988 to reach a low of 90.6 in 1992. This was a level below that experienced at the height of the imposition of sanctions (97.5 in 1986). This reflected poor economic trading conditions as the economy was once again forced to apply deflationary policies in order to address the ever present balance of payments constraint, despite the fact that no additional sanctions were imposed during this period. Ironically, the most dramatic drop in business confidence took place in 1990 at a time when it appeared that the reform process towards a more representative dispensation had been resumed at a faster pace and on a more substantial level than in the past. Rather than consider the rapid movement away from apartheid as a removal of a major constraint on the economy, it would appear that this development in fact unleashed an environment riddled with new uncertainties, thereby undermining confidence in the economy, despite the fact that most of the conditions for the lifting of sanctions had been met.

The initial euphoria surrounding the changes of early 1990 was short-lived. As the major parties started to debate the best ways of dealing with the complex problems in South Africa it became clear that there were diverse views as to how these problems should be addressed. The rhetoric surrounding these issues resulted in uncertainty regarding the nature of the political and economic framework that would prevail in a post-apartheid era. Not only did statements made by some of the anti-apartheid groups on possible increased state involvement through nationalisation of certain key industries, such as mining and banking, make the business community nervous but they also distorted visions of the viability of a post-apartheid South Africa. There were other important
economic issues such as the rising cost of labour and increasing government debt which was absorbing a decreasing pool of domestic savings, all of which were negatively affecting the economy. This lack of confidence would continue, at least until the new uncertain political and economic climate was stabilised and direction was given to the transition process.

7.4.2. Increasing political unrest

The escalation of sanctions during 1985-87 disengaged South Africa to a large extent from the international community. The regaining of law and order through the use of strict security measures once again became the priority of the government at the expense of reform. The authorities, although able to retard the unrest temporarily, were, however, unable to reduce the high levels of violence. The severe security measures taken were in contrast to what was required to avoid further sanctions being imposed. As a result there were still numerous calls for increased sanctions which maintained external pressure. These were reflected in, among others, the discussion in 1988 of draft legislation in the USA in the form of the Amended Anti-Apartheid Act (Dellums Bill) as well as the call on creditor banks to increase the repayment schedule in the next round of debt negotiations.

Although the momentum towards a process of real reform had been halted by the various states of emergency and the imposition of sanctions, the process of political reform was kept alive primarily through the piecemeal lifting of petty and economic apartheid laws. Most reform was labour related as trade unions became more effective in applying pressure against the business community. The political environment became more polarised as initiatives taken by the government, on the one hand, and internal

2 Peter Fallon writing for the World Bank concludes "that one reason why real white wages have shown a greater tendency to fall in the face of slower economic growth than those of Africans is that they are more responsive to lower growth in labour demand. Another factor, is that while white real wages are positively related to white productivity, the corresponding result does not apply to Africans. As slower economic growth has resulted in a corresponding reduction in growth of white productivity, this has put further downward pressure upon the real white wage." (Fallon 1992: 24).
anti-apartheid forces on the other, were not accepted. The initiatives of the government to promote the start of a slow process towards reform were rejected by most of the important black organisations, while the government in turn was not willing to accede to the demands made by the more prominent anti-apartheid groups.

It became increasingly clear that the unrest would remain and that no long-lasting solution could be found without all the major political groupings being involved in the process. A political deadlock had been reached. Government could not continue with its reform programme with only the small group with whom it chose to deal while ignoring other important black organisations. Progress was impossible without the co-operation of a sufficiently large black group including the growing anti-apartheid forces and the banned political organisations. From their point, the anti-apartheid movements were unable to weaken the government sufficiently to dictate the transfer of power. The realisation that this situation could not continue indefinitely ultimately led to the reform measures initiated by President FW de Klerk on 2 February 1990 when he announced the lifting of the banning order on various political organisations, including the ANC and the release of all political prisoners, the most famous being Nelson Mandela. As Lipton (1990) points out:

His (de Klerk) actions can only be understood as a logical continuation of the retreat from apartheid that was begun reluctantly, by his predecessors, Vorster and Botha. This continued retreat is being undertaken by de Klerk for the same reason - the realisation that apartheid has led South Africa into a cul-de-sac and that the long-term interests of his constituency, and of the whole country, require they move away from it (Lipton 1990: 19).

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3 National councils were formed to debate constitutional matters. Municipal elections for all racial groups would form the basis for the national council.

4 The municipal elections were boycotted with the result that there was a low voter turnout, which in turn questioned the legitimacy of the elected representatives.

5 Although the ANC was banned at the time, it still was seen as the major anti-apartheid movement in South Africa. It was clandestinely associated with the more important anti-apartheid groups such as Cosatu, UDF, MDM and as a result influenced these organisations' policy towards the South African government.

6 Zartman (1988) identifies some preconditions necessary for negotiation to take place. These include, among others, a mutually hurting stalemate, a deadline, a way out of the stalemate and a valid spokesman.
This dramatic shift meant that the anti-apartheid groups were now considered to be part of the solution rather than part of the problem. Although not immediate, the changes allowed for the more extreme conflict approach to achieve the transition of power, to be dropped by the majority of the liberation movements in favour of pursuing peaceful means to attain a new dispensation. The momentum of change was maintained the following year with the lifting of all remaining apartheid legislation, the so called pillars of apartheid7.

However, within this "positive" political climate, socio-political unrest escalated. This deteriorating political condition is reflected in table 7.6.

Table 7.7: Socio-political unrest: Political fatalities, 1985-1992

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of deaths</th>
</tr>
</thead>
<tbody>
<tr>
<td>1985</td>
<td>879</td>
</tr>
<tr>
<td>1986</td>
<td>1298</td>
</tr>
<tr>
<td>1987</td>
<td>661</td>
</tr>
<tr>
<td>1988</td>
<td>1149</td>
</tr>
<tr>
<td>1989</td>
<td>1403</td>
</tr>
<tr>
<td>1990</td>
<td>3699</td>
</tr>
<tr>
<td>1991</td>
<td>2706</td>
</tr>
<tr>
<td>1992</td>
<td>3347</td>
</tr>
</tbody>
</table>

*Source:* South African Institute for Race Relations, (various issues).

From table 7.7 it is once again evident that the 1985-87 sanctions were largely a response to the high levels of socio-political unrest when political fatalities reached a high of 1298 in 1986. However, the fatalities started increasing again after 1988 and remained at levels almost three times higher than that experienced earlier in 1986. The levels reached a maximum of 3699 in 1990, the very year the major political reforms were

7 These were the Black Land Act (1913), the Development Trust and Land Act (1936), the Population Registration Act (1950) and the Group Areas Act (1966).
initiated. However, even though this prolonged and increased unrest situation continued, it did not lead to an escalation of sanctions, as may have been predicted from the past pattern of events. The previous politico-economic cycle of sanctions experienced by South Africa was clearly discontinued.

7.4.3. Emerging divergence of political goals of sanctions

The continued call for sanctions after the so-called pillars of apartheid legislation had been removed and initial negotiations for a new constitution had started, highlights the divergent nature of the political aims of sanctions in the case of South Africa. On the one hand the major industrialised countries appeared to have achieved their foreign policy goals for sanctions, i.e. encouraging the South African government to abolish apartheid and prepare the way for negotiating a new dispensation with all other South Africans. They were accordingly not interested in escalating sanctions but rather to lift them. They saw the sanctions as being counterproductive in possibly contributing to the worsening economic conditions which could only bring about further polarisation in the post-apartheid South Africa.

On the other hand, there were other organisations and countries that continued to call for the retention of sanctions if not also their escalation in order to influence the outcome of the negotiations for a new constitution itself. The threat of sanctions was used to enhance the bargaining position of the anti-apartheid parties at the negotiations in order to gain concessions from the South African government that otherwise might not have been possible. These groups' ideological as well as financial support had meanwhile been undermined by international developments during the late eighties (see chapter 10). The countries that continued to call for sanctions, therefore, not only had the abolition of apartheid as a goal for the continuation of sanctions in mind, but also the establishment of a particular type of political and economic dispensation that had meanwhile proven non-viable and also been discredited worldwide. The fact that the groups and countries that continued to call for sanctions were also those that had been

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8 Cohen (1990: 1), Assistant Secretary of State for African Affairs, was of the opinion that "full-fledged negotiations to end apartheid were within reach" and as such sanctions should not be escalated. He did not want "to move the goalposts by which we judge the good faith of the South African government and its commitment to positive change." (Cohen 1990: 7).
in favour of savage sanctions would suggest that they always had different ideas as to what the post-apartheid South Africa should look like, compared with the views of the major industrialised countries that were responsible for the actual application of the relevant sanctions.

The continued deterioration of the South African economy without the escalation of sanctions would suggest that there were other more important structural factors that influenced the South African economy negatively, other than the sanctions imposed between 1985 and 1987. These were to continue even after the sanctions were lifted. The next section will evaluate firstly, the scope and nature of the sanctions imposed in terms of their ability not only to cause economic hardship but also in terms of achieving the abolition of apartheid. Thereafter the actual economic impact of the 1985-1987 sanctions measures will be reviewed, while chapter 10 will examine factors other than sanctions, that were prevalent at the time and also contributed to the abolition of apartheid and the negotiation of a peaceful political transition.
PART IV

THE ECONOMIC IMPACT OF SANCTIONS AGAINST SOUTH AFRICA AND OTHER IMPORTANT DEVELOPMENTS
CHAPTER 8

THE SCOPE AND NATURE OF THE 1985-1987 SANCTIONS

8.1. Introduction

The relative rather than absolute nature of the goal of foreign policy pursued by the industrialised countries to escalate sanctions during 1985-87 against South Africa's apartheid policies was discussed in Part III. It was pointed out that by the early eighties, and with the prospect of an era of economic prosperity, the South African government had committed itself to move away from apartheid. This process was, however, temporarily halted when, instead of prosperity, the country experienced a sharp and prolonged recession by the middle eighties. This was not unlike the case experienced in most other developing countries that were also faced with structural balance of payments problems at the time. In South Africa, the result was growing socio-political unrest and the further imposition of export and financial sanctions.

This part of the study, which comprises chapters 8 to 10, will begin by examining the various sanctions measures that were imposed against South Africa during the eighties with a view to determine their real scope and nature. This information will greatly assist in the interpretation of the estimates of the actual economic impact of the relevant sanctions, which is the subject matter of chapter 9. Finally chapter 10 will draw attention to certain concurrent local and international developments that also had an impact on the process of abolishing apartheid by the end of the eighties in the absence of the further escalation of sanctions.

This chapter will start with a brief record of the sanctions measures applied against South Africa\(^1\) during 1985-87, followed by an analysis of their scope and nature. The analysis of the possible impact of these measures will be guided by the criteria, outlined in chapter 3, to attain maximum economic damage.

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1 The summary is, however, not exhaustive and does not contain all the detail of the measures listed.
The general criteria are:

* Sanctions should be applied universally rather than unilaterally.
* Sanctions should be comprehensive rather than selective.
* Sanctions should be mandatory rather than voluntary.
* Sanctions should be imposed quickly over a short period of time rather than over a long time span.
* Sanctions should be imposed when the target country is vulnerable rather than when the economy is booming.

It will be necessary to constantly bear in mind the important role that propaganda plays, as discussed in chapter 4, in shaping perceptions regarding the economic impact of sanctions.

8.2. Brief overview of sanctions against South Africa before 1985

Although India was the first country to apply sanctions against South Africa's apartheid policy by restricting contact with South Africa after World War II, increased international disapproval was mobilised against apartheid only after the early 1960s. The anti-apartheid groups within South Africa largely received the support of the governments of the newly independent countries (former colonies), particularly in Africa. As proof of their solidarity with the anti-apartheid groups within South Africa, these countries were among the first to take steps to reduce their own interaction with South Africa. The actual extent and impact of their interaction was, however, very limited. It was soon realised that to bring any effective outside pressure on South Africa to change its policy would require the participation of the larger international community and, particularly, of the industrialised countries with whom South Africa had extensive trade and financial links.

The newly independent countries used their growing status in the international community as a platform to continuously highlight South Africa's apartheid policies. The purpose was to internationalise the official practice of apartheid presenting it as a threat to world peace and, later also as a crime against humanity in order to seek the support of the developed countries of the world, particularly the United Nations Security
Council, to impose stringent sanctions against the South African government of the day. From the outset it should be noted that these newly independent countries (comprising most of the third world countries) had quite a different approach to resolving the problem of apartheid in South Africa, compared to that shared by the more important industrialised countries. This difference was important in explaining the scope and the nature of the sanctions imposed against South Africa in the eighties, and will be raised again later.

It is necessary to point out that the more important members of the major Western industrialised nations were not convinced over the decades of the acuteness of the apartheid problem, nor of the feasibility or even desirability of applying effective sanctions against South Africa as a solution to the apartheid problem. They accordingly preferred other measures to show their disapproval of South Africa's domestic political policies. They did not, for example, hold the view that apartheid was an international problem, but rather a regional one. However, they did on occasion respond to calls for increased international pressure, but usually only in response to unacceptable social unrest and the use of measures of suppression in South Africa. In the wake of the Sharpeville shootings, for example, these countries supported the voluntary United Nations arms embargo against South Africa, as well as the establishment of anti-apartheid monitoring groups within the framework of the United Nations. One of these groups, the Special Committee against Apartheid took the initiative to co-ordinate a conference to debate sanctions against South Africa in 1964. It had the purpose of analysing the South African economy with the view of highlighting certain areas of the country's potential vulnerability to strategic outside sanctions.

The first important concerted effort to mobilise countries with disruptive economic capacities to impose sanctions of any consequence against South Africa occurred in 1973 in the form of an oil boycott. The Organisation of Petroleum Exporting Countries (OPEC) imposed a voluntary embargo on the direct sale of oil to South Africa. This was also partly in response to South Africa's support of Israel in the six-day and the Yom Kippur wars. The Arab countries had threatened to withhold supplies of oil from any country that supported Israel. When the general boycott was later lifted, the restrictions against South Africa remained, largely as a result of pressure from African countries.

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2 These specifically included access to oil and arms which were areas on which the anti-apartheid movements would concentrate in subsequent years, and which were eventually taken up by the major industrialised countries in their sanctions packages.

3 This was also partly in response to South Africa's support of Israel in the six day and the Yom Kippur wars. The Arab countries had threatened to withhold supplies of oil from any country that supported Israel. When the general boycott was later lifted, the restrictions against South Africa remained, largely as a result of pressure from African countries.
boycott was, however, not comprehensively applied by all OPEC members as Iran, under the Shah, continued to serve as a source of supply for South Africa. After the Iranian revolution in 1979, South Africa had to find alternative sources of oil supply which were primarily obtained from the secondary market dominated by commodity traders. Oil sanctions were stepped up in 1981 with a clause restricting South Africa as the end user of any shipments of oil. South Africa continued to obtain oil at a premium above the prolonged depressed world oil price, but no country, including the industrialised countries, admitted to supplying oil to South Africa.

Another wave of pressure was experienced by the major industrialised countries to apply some sort of common economic action against South Africa in the wake of the 1976 Soweto riots. The Security Council of the United Nations, with the unanimous support of the permanent members, responded by accepting Resolution 418 in 1977, effectively imposing a mandatory arms embargo against South Africa. This represented the first and only mandatory form of United Nations sanctions imposed against South Africa.

The 1976 riots led to increased international awareness and concern regarding South Africa, particularly in the major industrialised countries. Anti-apartheid groups within these countries were becoming more effective in highlighting South Africa as an important local socio-political issue that deserved punitive economic action. This was done by exposing multinational corporations with interests in South Africa, and suggesting that they were supporters of apartheid. Calls for disengagement were supplemented by various prescriptive codes of conduct for businesses with operations in South Africa. The reasons for the codes were:

"First, to achieve some social and economic improvements for blacks of South Africa and second, to counter criticisms, both international and domestic of a lack of concern or even support for apartheid by Western governments and companies." (Barber 1980: 26).

4 Some scholars (Campbell 1986) consider the multinationals to have been important agents for change. They channeled resources into education and formed a peculiar relationship with the emerging trade unions to put pressure on the government to normalise its industrial relations and move away from apartheid.
The EEC Code was agreed on in 1977 and was followed later by the Sullivan Code for USA companies with investments in South Africa.

Within the major industrialised countries there was also a growing momentum of anti-South African feeling orchestrated by non-governmental organisations (NGOs). This momentum was especially noticeable in the USA, where student groups, universities, churches and trade unions put pressure on multinational corporations to disinvest from South Africa by divesting their portfolios of the stocks of such multinational companies. In addition, local and state authorities increasingly refused to grant contracts to multinational corporations with interests in South Africa. These various measures by the NGOs were promoted and co-ordinated internationally after a conference on sanctions against South Africa was held in Paris in 1981. (See chapter 5).

The growing pressure for further international sanctions against South Africa was successfully withstood during the late seventies and early eighties. The Reagan policy of constructive engagement towards South Africa received support from the conservative governments in the UK and West Germany, seemingly in recognition of South Africa's

5 The seven principles relating to black workers were:
1. Companies should recognise the right to be represented by trade unions.
2. Employers should help to ensure the freedom of choice of place of work, and abode and alleviate the effects of the migrant labour system.
3. Pay should be increased to the effective minimum level i.e. 50 percent above poverty line.
4. Equal pay for equal work, and training programmes for blacks.
5. Improved fringe benefits and living conditions.
6. Desegregation within the work place.
7. Parent companies should publish annual detailed reports on the implementation of the code (Barber 1980: 27).

6 These included the following:
1. Non-segregation of all races in all eating, comfort and work facilities.
2. Equal and fair employment practices for all employees.
3. Equal pay for all employees doing equal or comparable work for the same period of time. This could conflict with certain restrictions placed on employment of a certain person only if a member of a certain trade union. If this union had no black members, access to that type of job was denied on the basis of race.
4. Initiation and development of training programmes that would prepare, in substantial numbers, blacks and other non-whites for supervisory, administrative, clerical and technical jobs.
5. Increasing the number of blacks and other non-whites in management and supervisory positions.
6. Improving the quality of employees' lives outside the work environment in such areas as housing, transportation, schooling, recreation and health facilities (Piron 1979: 39).

7 The universities and trade unions had significant funds invested in multinational corporations, many of which had interests in South Africa, as part of their pension funds and other portfolios. A major sell off of these shares would influence the price and, therefore, the market rating of the relevant corporations.
reform policy away from apartheid. However, by 1983, partly to accommodate increasing pressure from NGOs in the USA, an important new measure was passed by the US Congress that effectively blocked further IMF loan facilities "to any country which practices apartheid", i.e. South Africa. The so-called Gramm Amendment of 1983 required that in future, certain domestic policy criteria had to be met before the USA representative at the IMF could support any South African application for loan facilities. This followed successful use of IMF facilities the year before.

The gradual build-up of sanctions against South Africa had occurred more or less on an ad hoc basis much in accordance with Frey's (1984: 118) international political cycle of sanctions mentioned in chapter 4. Although a broad outline had been provided by various anti-apartheid organisations of what was required for an effective sanctions campaign against South Africa, such action could not be co-ordinated effectively without the participation of the major industrialised countries. Up until 1985 most of the economic restrictions imposed against South Africa were either symbolic in nature. The majority of the measures taken by the more important trading countries were mainly gestures to indicate disapproval of South Africa's political behaviour, internally in terms of dealing with periodic anti-apartheid unrest, and regionally through its policy of destabilising its neighbouring countries. However, as pointed out earlier, an unusual combination of factors developed in 1984 that ensured widespread and continued unrest in South Africa. These conditions brought an end to the tolerant and positive foreign approach, and introduced another more co-ordinated escalation in sanctions against

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8 According to the Gramm Amendment apartheid was causing severe constraints on the mobility of labour and capital as well as "other highly inefficient labour and capital supply rigidities". Because of these inefficiencies South Africa was suffering from a balance of payments imbalance which could not be effectively alleviated by relying on private capital markets (Leonard 1984: 15).

9 The following limited restrictions by the USA against South Africa were already in place by 1984:

1. Sale of weapons and military equipment to South Africa, according to the voluntary and later mandatory arms embargo of the United Nations.
2. Ban on the import of military equipment and arms from South Africa.
3. The USA Export-Import Bank was not allowed to finance any US sales to South Africa.
4. Guarantees for private investment in South Africa were not provided by the Overseas Private Investment Corporation (OPIC).
5. South Africa was not visited by USA trade delegations.
6. The USA's representative at the IMF could only support a South African loan application if the proposed use thereof met certain anti-apartheid criteria.
7. Sale of computers to the South African Defence Force and Police or other apartheid enforcing institutions.
8. Only unclassified non-sensitive nuclear technology for peaceful and safe purposes was exported to South Africa.
South Africa. The sanctions imposed during 1985 to 1987 and particularly their programmed escalation had the capacity to cause considerable economic damage when compared to all the previous measures introduced against South Africa over decades. The circumstances that mainly gave rise to the sudden escalation of sanctions against South Africa between 1985 and 1987 were discussed in chapter 6 and identified as firstly, the unexpected and persistent deterioration of the economy, and secondly, the rise in continued socio-political instability together with a high visibility of violence including cross border raids.

The next section provides an abridged list of the relevant measures that were imposed against South Africa by various countries, but particularly the major industrialised countries, with the USA taking a leading role in coordinating the policy. The measures imposed as well as the major countries involved are summarised in diagrams 8.1 and 8.2. These classifications will form the basis to arrive at an assessment of the expected impact of the measures considered as a whole. The main sources for compiling the list of sanctions are Botes (1992) and the General Accounting Office of the US Congress (1988a and b).

8.3. The sanctions measures imposed by various countries

8.3.1. The USA

The wave of new measures against South Africa started in the eighties when President Reagan signed an Executive Order in 1985, restricting loans to and trade in certain products with South Africa. The items included were Krugerrands, new investments, prohibition of the sale of oil, weapons and nuclear technology and equipment. Also no further loans to the government of South Africa or any of its agencies were allowed. This was to a large extent a reinforcement of voluntary measures already in place against South Africa which then became official. The main intention of the Executive Order was to defuse the momentum for sanctions that was building up in the USA, rather than to impose any new potentially damaging measures.

10 The main official USA documentation on sanctions against South Africa is the Comprehensive Anti-Apartheid Act of 1986.
The Executive Order initially managed to halt the momentum of sanctions, but not to change its course. The following year, a new more comprehensive sanctions bill was introduced and passed by Congress. President Reagan, still not convinced that sanctions should be imposed, vetoed Congress' approval of the bill. However, Congress overrode President Reagan's veto resulting in the passage of a fairly extensive sanctions package in the form of the Comprehensive Anti-Apartheid Act of 1986 (CAAA). This law not only incorporated those measures that had already been taken in previous years by the USA and the UN, but also included certain new industrial and agricultural products. These measures were imposed in order to achieve specific political aims. Some were symbolic gestures while other more concrete measures were designed to do some damage to the South African economy. The CAAA banned landing rights for South African Airways as well as the import of agricultural products, certain iron and steel products, coal, uranium, textiles, and goods from government controlled institutions with the exception of strategic minerals. It also placed limitations on new investments in South Africa while continuing the ban on the export of petrol and petroleum products to South Africa. The double taxation treaty was withdrawn and all government assistance regarding investment in and trade with South Africa fell away. South African government deposits with banks were banned, except for diplomatic purposes. A ban was also placed on USA contracts with South African government institutions and the promotion of tourism to South Africa. Any contravention of the measures would be met with heavy penalties. One of the more important aspects of this legislation was that

11 This was President Reagan's first defeat by Congress on a foreign policy issue (Martin 1987: 331).
12 Krugerrands, loans to the government of South Africa, nuclear trade with South Africa, and computer exports to South Africa.
13 Military articles, cooperation with the South African armed forces, export of items to South Africa on the Munitions list as well as oil.
14 Section 101 (b) of the CAAA of 1986 had the following stated objectives:
   1. The repeal of the state of emergency and respect of the principle of equal justice under law for citizens of all races.
   2. The release of Nelson Mandela, Govan Mbeki, Walter Sisulu, black trade union leaders, and all political prisoners.
   3. To permit the free enterprise by South Africans of all races of the right to form political parties, express political opinions, and otherwise participate in the political process.
   4. To establish a timetable for the elimination of apartheid laws.
   5. To negotiate with representatives of all racial groups in South Africa the future political system in South Africa.
   6. To end military and paramilitary activities aimed at neighbouring states (CAAA 1986: 8).
15 In the case of an individual, the civil penalty was $50,000 and any person not an individual would be liable for a fine of $1,000,000. Imprisonment stood at no more than 12 years (CAAA 1986: 67).
there was a built-in escalation clause\textsuperscript{16}. This required the President to report to Congress on an annual basis, as to what progress had been made in achieving the specified objectives. If insufficient progress had been made, additional measures would then have to be imposed.

A year later, as part of the Omnibus Trade Bill, additional restrictions were imposed on South Africa. The Rangel Amendment placed additional strain on companies with equity links in South Africa\textsuperscript{17}. It is important to point out, as was mentioned in chapter 7, that no further sanctions of any consequence were in fact imposed after 1987.

\subsection*{8.3.2. EEC countries}

The approach agreed upon by the important European countries was arrived at via the EEC, recommending restrictions to be implemented by individual countries on a range of products and financial flows. In September 1985, the foreign ministers decided to tighten the controls of the arms embargo, of the export of computer equipment and oil to South Africa, of the import and export of weapons and paramilitary equipment as well as discouraging cultural and scientific agreements. On 16 September 1986, restrictions were placed on new investments in South Africa, certain iron and steel imports and gold coins. Coal was to have been included, but Portugal and West Germany were not prepared to include it\textsuperscript{18}. The EEC measures formed the minimum common denominator of such measures, allowing individual countries to include additional products, if they wanted to do so\textsuperscript{19}. The financial sanctions focussed mostly on voluntary restrictions regarding certain bank loans as well as new investment.

\begin{itemize}
\item \textsuperscript{16} Section 501 of the CAAA of 1986.
\item \textsuperscript{17} The Rangel Amendment, submitted by Charles Rangel a member of the Black Caucus, disallowed US subsidiaries in South Africa to claim their tax payments in South Africa as credits against their own tax liability in the USA. As a result profits were taxed in both South Africa and in the USA.
\item \textsuperscript{18} It is ironic that the limited European sanctions were imposed when the UK held the position of president of the European Council. As Holland (1987: 303) points out "It is the responsibility of the country holding the presidency to engineer, wherever possible, conditions for consensus decision-making. As an ordinary Member State, the United Kingdom had successfully resisted the call for sanctions. However, once in the chair, she was unable to exclude the issue from the agenda or advocate such a strong national position. Consequently, sanctions, albeit reluctantly, were introduced under the auspices of a British presidency."
\item \textsuperscript{19} See the measures Denmark adopted in section 8.3.2.8 of this chapter.
\end{itemize}
8.3.2.1. Britain

Britain, although opposed to the use of sanctions, imposed limited sanctions due to growing international and domestic pressure. It abided by the restrictions agreed to by the EEC, i.e. gold coins, certain iron and steel products as well as loans to the South African government or its institutions. It also placed a voluntary ban on new investments as well as the promotion of tourism to South Africa. The use of state funds for trade missions to South Africa was also discontinued.

8.3.2.2. West Germany

West Germany imposed the restrictions decided upon by the EEC, but had strongly opposed the inclusion of coal in the sanctions package.

8.3.2.3. France

France imposed the limited EEC sanctions package. In addition to this France had already placed a ban on new investments in South Africa on 24 July 1985. The French utility companies were also requested not to renew their coal contracts with South African suppliers when they expired.

8.3.2.4. The Netherlands

The Netherlands imposed the set of EEC sanctions measures and attempted to include coal in the original sanctions package. It also reduced the limits of export credit insurance to South Africa for existing exporters, while new exporters were denied this facility.

8.3.2.5. Italy

Italy imposed the EEC sanctions measures. Although Italy maintained a low profile in the sanctions campaign it was willing to accept and implement any new EEC sponsored and co-ordinated measures.
8.3.2.6. Portugal

Portugal was opposed to any sanctions against South Africa and only imposed the limited EEC measures. It supported West Germany's exclusion of coal in the EEC sanctions package.

8.3.2.7. Greece

Greece imposed the EEC sanctions measures. In addition, the government tried to discourage Greek ships from using South African harbours. This was an attempt to strengthen the oil embargo.

8.3.2.8. Other EEC members

Denmark was a strong supporter of the sanctions campaign against South Africa. It, therefore, not only imposed those measures agreed upon by the EEC but added its own more comprehensive measures, in line with the other Nordic countries, which included a greater range of products. Ireland stopped government assistance of exports to South Africa. It also banned the importation of South African fruit and vegetables.

8.3.3. Nordic countries

The Nordic countries accepted a programme of action against South Africa on 17 and 18 October 1985. This programme of action included attempts to broaden multilateral support for sanctions through international organisations such as the United Nations. In addition, unilateral steps would be taken against South Africa. These included:

* Restrictions on the import of Krugerrands, all new contracts in the nuclear field, the export of computer equipment to South Africa for use by the security forces;

* A restriction of all state supported assistance for the promotion of trade with South Africa as well as on the import of South African weaponry;
Restrictions on new investments in and loans to South Africa. These restrictions included the participation in the raising of finance for South Africa through the taking up of loan stock, on the transfer of patent and licensing agreements as well as withholding support for loans from the IMF;

Restrictions on government purchases from South Africa, discouraging aircraft services to South Africa as well as encouraging companies to reduce their trade with South Africa and instead to find alternative import and export markets; and

More stringent measures in the sport, cultural and scientific fields regarding contact with South Africa as well as the implementation of guidelines regarding visa applications by South African citizens.

In addition to these commonly applied measures each country also imposed its own unilateral measures according to its own discretion.

8.3.3.1. Norway

Norway supported the measures imposed by the Nordic countries and initiatives in the United Nations. On 27 March 1985 the government had already imposed the following measures against South Africa:

* The compulsory registration of Norwegian ships exporting oil to South Africa;
* All Norwegian imports from South Africa had to comply with a system of import licensing;
* Financial assistance to those companies that stopped all trade with South Africa;
* The imposition of a voluntary restriction on the sale of North Sea oil to South Africa;
* No state sponsored guarantees for Norwegian investments in South Africa; and
* No credit guarantee for exports to South Africa.
8.3.3.2. Sweden

On 25 February 1985 the Swedish government had strengthened an existing policy of no new investments in South Africa by restricting the further expansion, even with their own internally generated resources, of Swedish companies operating in South Africa. On 2 May 1985 government departments were officially requested to refrain from purchasing any products from South Africa. The importation of gold coins and agricultural products was restricted from 1 January 1986. Imports from South Africa had to abide automatically by the import licensing system after 5 June 1986. From 1 July 1986 it was illegal for Swedish companies to sell patent rights as well as manufacturing licenses to South Africa. Sweden also banned the importation of South African wines and spirits.

8.3.3.3. Finland

Finland imposed the measures agreed upon by the other Nordic states. It also banned the import of South African wines and spirits. The Finnish Association of Trade and Industry requested its members to refrain voluntarily from importing South African fruit and metals. A ban was also placed on the import of gold coins, weapons and arms and military vehicles. The export of computers, components for nuclear power as well as new investments were banned. In addition to this, a decision taken by the Finnish Transport Workers Union not to handle any products to and from South Africa effectively ceased all direct trade between the two countries.

8.3.4. Austria

Austria imposed selective measures against South Africa which included the banning of new investments in South Africa, the export of computer technology as well as participation in nuclear projects. Credit insurance for exports to South Africa as well as subsidies for sport and cultural organisations maintaining ties with South Africa were withdrawn.
8.3.5. Japan

Japan already had a ban on direct investment in South Africa since 1964\textsuperscript{20}. In 1985 Japan prohibited the export of computer equipment to the South African security forces. The government also encouraged its citizens to stop the import of South African gold coins voluntarily, to promote non-discriminatory labour practices at the offices of Japanese companies in South Africa and to become more involved in the development and training of blacks in southern Africa.

In 1986, wary of possible retaliatory measures from the USA, Japan imposed further sanctions which were similar to those being imposed by the other major industrialised countries. The measures restricted the importation of certain iron and steel products, but not coal. It also denied landing rights for South African aircraft. Tourist visas for South African citizens were no longer issued while Japanese tourists were discouraged from choosing South Africa as a destination.

One of the consequences of the USA sanctions was that Japan became South Africa's largest trading partner in terms of both exports to and imports from South Africa, although the former had, with few exceptions, not been targeted by the USA. This drew severe criticism from the US Congress which was already sensitive to Japanese trade practices, particularly in respect of its US trade. The immediate response to this adverse publicity was a pegging of the value of South Africa imports from Japan at pre-1986 levels\textsuperscript{21}, so that there could be no further accusations that Japan was exploiting the gap left by the withdrawal of the USA from the South African market. It also made attempts to reduce its status as being South Africa's most important trading partner\textsuperscript{22} so as not to antagonise the USA and be targeted by anti-apartheid organisations as well.

\textsuperscript{20} Japan's refusal to allow direct investment was in protest to South Africa's apartheid policy which had restricted the number of Asian visitors to South Africa at any given time. The Japanese were also initially not regarded as whites, and would have been subject to the same restrictions as other non-whites under the apartheid policies. However, the South African government later classified Japanese as "honorary whites" which entitled them to the same status and privileges as whites.

\textsuperscript{21} Initially these levels were determined by the value of the exports to South Africa. As the yen appreciated against the South African rand, the levels were determined by volume, thereby allowing a greater value of goods to be exported.

\textsuperscript{22} Japan was always wary of gaining this label as it knew it would invite strong US political opposition. To avert the situation, not only was the technique mentioned above of restricting trade levels to the pre-1986 levels used, but also certain companies sourced goods from South Africa as well as supplied products to South Africa via their subsidiaries in the USA, thereby giving the impression that the USA was increasing trade with South Africa while Japan was reducing its levels (Financial Times 1988).
8.3.6. Brazil

In August 1985 the Brazilian president signed a decree banning any cultural and sport relations with South Africa, the export of oil and related products, the supply of weapons and related equipment as well as the transport thereof via its land area.

8.3.7. Israel

The threat of retaliatory measures by the USA prompted Israel to impose limited sanctions similar to those adopted by most other countries. In March 1987 the Israeli government announced that no new defence contracts would be considered. In September 1987 new investments in and loans to South Africa, the export of oil and the import of gold coins were banned. Imports of certain iron and steel products were frozen at 1987 levels, while most sport and cultural contacts were also restricted.

8.3.8. The Commonwealth

The Commonwealth meeting held at Nassau in 1985 had the deteriorating situation in South Africa high on the agenda. A compromise was reached after strong resistance from Britain to the sanctions approach. The compromise recommended a ban on new loans to the South African government, an end to the import of gold coins, arms and military hardware, and an end to the export of computer equipment, nuclear technology and fuel as well as oil. Furthermore, no government assistance would be provided for trade missions or participation at exhibitions in South Africa, while cultural and scientific ties were to be discouraged.

In 1986, this time with the exception of Britain, more stringent measures were agreed upon. No new investments or reinvestments were allowed while there was also a ban on bank loans to South Africa. Air links as well as the promotion of tourism to South Africa were banned. A ban was also proposed on the import of agricultural products, coal, uranium and certain iron and steel products from South Africa. It was left to individual countries to impose their own restrictions along these lines and according to their own particular circumstances.
8.3.8.1. Australia

In August 1985 Australia announced that it would close its trade office in Johannesburg. A ban was placed on the export of petrol and petroleum products as well as computer equipment. The import of gold coins, arms and ammunition, direct investment, new direct as well as indirect loans of more than AUS$ 20000 were also restricted. Furthermore, no government contracts could be negotiated with companies which had a South African majority interest.

In November 1986 the existing air links were canceled. In December 1986 it was announced that from June 1987 a ban would be placed on the import of South African coal, certain iron and steel products and agricultural products.

8.3.8.2. New Zealand

In November 1985 a ban was imposed on the export of computer equipment, weapons, arms and military equipment as well as the import of gold coins. From December 1986 a ban was imposed on the import of agricultural products as well as on new investments and the promotion of tourism in South Africa.

8.3.8.3. Canada

In July 1985 the Canadian government announced that employment practices of subsidiaries would be monitored more closely. The United Nations arms embargo would be expanded to include any purchases of arms and weapons from South Africa. The credit guarantee for exporters would be terminated while export insurance would not be issued. The contract to process uranium, originating in Namibia, for re-export was canceled.

Later in 1985, an administrator was appointed to monitor the employment practices of Canadian firms operating in South Africa. The export of crude oil as well as refined petroleum products to South Africa was discouraged. Increased funds were also made available to the families of political refugees and detainees.
On 12 June 1986 the measures were again expanded. A ban was placed on the purchase of South African goods by government institutions and on the promotion of tourism to South Africa. On September 26 strict import control measures were placed on agricultural produce, uranium, coal and certain iron and steel products.

8.3.8.4. Hong Kong

Hong Kong stated that it was not prepared to be used as a middleman to circumvent sanctions. It also banned the import of certain iron and steel products and appealed to business not to make new investment in, nor to grant new bank loans to South Africa. Furthermore travel agents were requested not to encourage tourism to South Africa.

8.3.9. African Countries

Most of the African countries had already imposed comprehensive restrictions on all kinds of economic and political interaction with South Africa. However, because this interaction was limited, the consequences of the comprehensive measures were negligible. The important exceptions were, of course, the Frontline States\(^{23}\). Their economies were mostly very closely integrated with that of South Africa. Whereas Zambia and Zimbabwe were willing to impose the same restrictions as those agreed upon at the Commonwealth summit of 1986, the other members were not prepared to adhere to this, nor were they expected to apply sanctions of any consequence, as they would have had to pay too high a price.

Even though the Frontline States did not participate directly in sanctions against South Africa on any large scale, they kept South Africa's policies on the agenda at all the meetings of major international organisations, thereby ensuring continuous pressure for greater sanctions against South Africa, and exposure of other countries that maintained strong trade and financial links with South Africa.

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\(^{23}\) The Frontline States at the time comprised of Zimbabwe, Zambia, Mozambique, Angola, Lesotho, Swaziland and Botswana.
8.3.10. Non Aligned Movement

The Non Aligned Movement imposed a ban on the import of agricultural products, coal, uranium, certain iron and steel products as well as on air and sea links. No new investments in or loans to South Africa were allowed. The transfer of technology, the export, or transport of oil, the sale of South African gold coins and the promotion of tourism to South Africa were all banned, while double taxation agreements were abrogated and government contracts with companies where South African interests had a majority share, were canceled. A solidarity fund for the Frontline States was also established to assist them in their struggle against South Africa.

8.3.11. United Nations

Despite heavy international pressure, the United Nations Security Council had only imposed a mandatory arms embargo against South Africa. In December 1984, members were requested to refrain from importing arms and weapons from South Africa. In July 1985 the request for members to impose a ban on investment in South Africa, the import of gold coins, the withdrawal of credit insurance for exports to South Africa and to impose restrictions on nuclear cooperation was accepted unanimously by the Security Council. In November 1986 the General Assembly passed a resolution to instruct the Security Council to impose more stringent measures against South Africa, but without any considerable consequence. However, the General Assembly also passed a resolution in which individual countries were encouraged to act unilaterally against South Africa in the light of a lack of multilateral support from the Security Council. Particular attention was paid to ensuring the end of oil supplies to South Africa.
Diagram 8.1: Official sanctions against South African exports

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<th>Basic iron and steel</th>
<th>Gold coins</th>
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<th>Fruit and vegetables</th>
<th>Wine and spirits</th>
<th>Coal</th>
<th>All other agricultural products</th>
<th>Iron ore</th>
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* 6 major trading partners that account for 80 percent of foreign trade with South Africa

### Diagram 8.2: Official financial sanctions against South Africa

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8.4. Evaluation of the scope and nature of the various sanctions measures

An initial glance at the sanctions outlined above and summarised in diagrams 8.1 and 8.2 would suggest that the restrictive measures imposed against South Africa during 1985-1987 were no longer only symbolic and selective in nature, but rather reflected a major policy shift towards a comprehensive campaign with the potential of having a considerable impact on the economy of South Africa. There is little doubt that the 1985-87 measures had the potential of having a growing impact and becoming more effective, particularly if the programmed nature to ensure further escalation of sanctions on a universal basis in future was taken into account.

Diagrams 8.1 and 8.2 refer to restrictions on certain South African exports and financial transactions respectively. Most of the countries shown are industrialised economies that maintain considerable economic links with South Africa. They exclude East European countries, Latin American countries and African countries. Some of the southern African Frontline States also have very close ties with South Africa but did not apply sanctions against South Africa, nor were they expected to do so without suffering crippling consequences. The potential for escalation lay in the measures applied by North America, the Scandinavian countries and Australia, shown at the lower part of the diagrams. These were extended to include more items and were being adopted increasingly by other countries with considerable economic links with South Africa. The new sanctions judged together with previous measures were steadily meeting more of the criteria mentioned in chapter 3 to prove effective.
After the surge of anti-apartheid feelings in 1985, the sanctions lobby gained considerable international support. At the time, there was almost universal condemnation of the handling of the unrest situation in South Africa, which was directly associated with the country's apartheid policy. Moreover, South Africa was now openly involved in destabilising countries in the region to undermine their support for the liberation movements operating against South Africa. Also, South Africa was not responding to representations from friendly industrial nations to improve its poor neighbourly policies. These friendly countries found it increasingly difficult to defend South Africa's action against the growing anti-South African lobby that was calling for comprehensive sanctions against the country. These governments were also experiencing growing domestic pressure to take effective measures against apartheid South Africa. The perception was also being created that to be opposed to sanctions for whatever reason was to support apartheid South Africa and, therefore, to condone racism, which was an extremely sensitive issue internationally, but particularly so in the USA. Countries that had been critical in the past but had not applied sanctions against South Africa, were being forced to reconsider their positions. As a result, numerous countries were becoming willing to strengthen their critical rhetoric against apartheid by adopting certain sanctions measures.

24 Almost all members of the General Assembly of the United Nations supported sanctions resolutions against South Africa. It was only the veto power of the permanent members of the Security Council that prevented the passing of these resolutions. The OAU in its entirety supported sanctions, while the Commonwealth, except for Britain, also took this view.

25 See chapter 6 for the surge in the call for sanctions measures.

26 This was apparent when the forces of the South African Defence Force (SADF) undertook cross-border raids into Zambia, Botswana and Zimbabwe on 19 May 1986, while the Commonwealth mission of Eminent Persons Group (EPG) was in South Africa on a fact finding mission to promote peaceful means of political transition. Immediately after the raids the group left South Africa, suggesting that the outlook for such a course looked extremely bleak (Barber and Barratt 1990: 331).
A united sanctions front against South Africa was clearly emerging for the first time. The European countries agreed on a common approach towards South Africa by adopting a package of sanctions measures through the EEC in 1985. All the countries within the EEC agreed to abide by the basic resolutions passed, although the application was left to the discretion of the individual members. Despite this, some countries imposed the minimum that was required, but others imposed more severe restrictions over and above those proposed in the common recommendations.

After the U.S. Congress vetoed their President's stance against a comprehensive sanctions approach, the USA emerged as the leading industrial nation in the sanctions campaign against South Africa. It was especially embarrassed by the cross-border raids of the South African government, as it could not reconcile this behaviour with the Reagan administration's policy of constructive engagement. Not only did the CAAA of 1986 impose sanctions on a wider range of products than before, but it included measures that could automatically broaden the package if no progress was made in achieving the political objectives of the sanctions. Another important component of the CAAA was its attempt to get the USA's sanction legislation to form the basis of a multilateral approach by threatening to impose sanctions against third countries that undermined this effort.

By 1986, most of South Africa's major and many of its minor trading partners had some form of official economic sanctions in place against the country. Another consideration was that the industrialised countries, as a growing group of countries imposing sanctions, were in a much better position to monitor the flows of trade with South Africa and thereby ensure more effective application of such measures than was the case in most of the less developed countries. This promised to restrict any possibility of circumventing the sanctions, and make the limited number of measures more effective.

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27 For details of the specific measures taken by the countries refer to section 8.3.1 of this chapter.

28 According to section 501 of the CAAA, the President had to submit an annual report to Congress informing them of the progress in achieving the outlined political objectives in order to establish whether sanctions should be escalated.

29 A request for international cooperation was made in section 107 of the CAAA. According to section 402 of the CAAA, however, "the President is authorized to limit the importation into the US of any product or service of a foreign country to the extent to which such a foreign country benefits from, or otherwise takes commercial advantage of, any sanctions or prohibition...imposed by or under this Act" (CAAA 1986: 50). Both Japan and Israel were very sensitive to these threats and decided to impose limited sanctions against South Africa in an attempt to defuse the USA taking steps against them.
The major Western industrialised nations, with the USA as the superpower of the West, were mainly responsible for imposing an array of new sanctions against South Africa in the middle eighties. This occurred at a time when South Africa was particularly vulnerable financially, and the campaign achieved great momentum when compared with previous attempts to impose international sanctions against South Africa. This new wave of sanctions may indeed have given the impression that the world had at last agreed that sanctions action was the course to be taken against apartheid South Africa. This experience may also have portrayed what seemed to be a united view at the time regarding the political goals being pursued by applying sanctions against South Africa. It would appear therefore that one of the criteria for successful imposition of sanctions, identified in chapter 3, i.e. the universal application of sanctions with provision for further escalation, had been met.

However, closer analysis of the particular measures reveals that these seemingly co-ordinated efforts and shared objectives of the sanctions campaign were at best superficial. There still remained vast differences in economic interests and of opinions regarding the political effectiveness of the sanctions route against South Africa. As can be seen from diagrams 8.1 and 8.2 only the USA, one of the six major trading partners that accounted for just more than 80 percent of trade with South Africa, imposed any significant sanctions. Equally important, if not more so, were the divergent views as to the kind of new government as well as the state of the economy that were to follow the demise of apartheid. The escalation of the sanctions during the middle eighties represented at best a time tied agreement between certain leading international powers, rather than part of an universal and enduring agreement on what course to follow and how best to achieve certain clear political goals.

All the governments of South Africa's major trading partners would have preferred not to resort to sanctions measures, but they eventually had little option. These countries had been caught up in the anti-South African wave that swept the world media at the time and which had been organised at grassroots level mainly by NGOs within the

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30 In the USA Reagan's veto of the legislation was overturned and accepted by more than a two-thirds majority of Congress, while in the UK Thatcher remained opposed to sanctions and refused to institute measures other than on a voluntary basis. Within the Commonwealth she remained resolutely opposed to sanctions, and maintained this position against the consensus of opinion to the contrary that prevailed at the Commonwealth meetings.
countries concerned. The relevant governments had to be seen to be doing something to satisfy their own constituencies. However, the immediate measures chosen were those which the governments anticipated would be sufficient to silence the criticism against their inaction, to discourage South Africa from further cross-border destabilisation activities and to resume the process of constitutional reform away from apartheid instead. There was no real evidence that the intention of South Africa’s major trading partners was to apply comprehensive and universal sanctions that would on the one hand, cause major damage to the South African economy and, on the other, imply high costs for the sender countries. They were interested in playing a facilitating\textsuperscript{31} rather than a destructive role in seeking a solution to South Africa’s intractable socio-political problem. Most remained convinced that the sanctions route would not help to speed up the reform process in South Africa without causing irreparable harm at great cost to themselves, any future government of South Africa and its neighbouring states. Indeed, any concerted and effective international campaign could prove counterproductive.

They were also uncertain as to the extent of their remaining political leverage over South Africa which could be expected to be reduced further after the imposition of harsher sanctions measures. Many felt that the escalation of sanctions was, in any case, contrary to the broader objectives of achieving a peaceful and viable South Africa after the demise of apartheid.

Reagan stated the viewpoint of the USA at the time as follows:

"(T)he way to help the people of South Africa is not to cripple the economy upon which they (the blacks) and their families depend." .... "It would be a historic folly for the US and the West, out of anguish and frustration and anger, to write off South Africa. Ultimately the fate of South Africa will be decided there, not here. We Americans stand ready to help, but whether South Africa emerges democratic and free or takes a course leading to a downward spiral of poverty and repression will finally be their choice, not ours." (Reagan 1986: 642-644).

\textsuperscript{31} Chester Crocker (1987: 8) stated: "At the core of our sobering experience is the realisation that there is a severe limit to what the United States, or any other outside power or combination of powers, can do to bring about change in South Africa. We can and we must continue to pursue a policy of both pressure and persuasion. The sanctions enacted in the 1980s and previous decades serve as a measure of our indignation at continuing racial injustice and repression. We will continue to use every appropriate form of peaceful persuasion to accelerate the pace of change. But we know now, more than ever, that the fate of South Africa is not in our hands."
Thatcher shared these views. She felt that South Africans themselves would have to find solutions to their socio-political problems in their own time and way. Sanctions, being a severe form of outside interference could not aid the seeking of an effective solution in the short-term as such measures would only hurt the very people that sanctions were trying to assist. Furthermore, sanctions would reduce the chances of economic recovery and ultimately also the arrival at a durable political solution afterwards.

At the same time, however, there was an unmistakable message that could be read into these sanctions, i.e. that South Africa must move away from apartheid more rapidly and address the question of political representation for all its citizens along peaceful avenues. If no new initiatives were taken to negotiate a peaceful future with all interested parties in South Africa, it would become increasingly more difficult for the industrialised countries to resist pressure for further sanctions at home and at international forums. The clear signal sent by these sanctions was that there was no future in apartheid, and that the South African authorities should not consider reversing the process of political reform. It was strongly felt that the South African authorities should not engage in any tactics in the process of reform that could not be condoned by the international community. Pursuit of harsh tactics to combat the local unrest situation, or to attack and destabilise neighbouring countries was simply unacceptable.

The scope and nature of the sanctions imposed in the mid-eighties also made it clear that the basic objectives of the major industrialised countries still differed quite radically from those countries and organisations that were promoting vicious and crippling sanctions against South Africa. The anti-apartheid movements were not satisfied with the highly selective and unco-ordinated sanctions measures introduced at the time, not even to the extent of those imposed by the USA. The anti-apartheid groups wanted a transition of power from the white minority regime to black majority rule almost without any regard for the consequences. In order to succeed they were prepared to damage the economy to an extent that the "pressure will cause real discomfort" for the whites (Commonwealth 1989: 167). This level of discomfort, it was maintained, would have to be so severe for the whites that they would abandon the status quo and hand over power. It was argued that the position of the blacks was becoming intolerable, and that if there were any costs to bear from full scale sanctions, the costs would be small when compared to the effects of continuing with the unjust system of apartheid (Commonwealth 1989: 179). This countered the argument at the time that any further sanctions would harm the very people they were intended to help. The strong anti-apartheid lobbyists admitted
that they had tried all reasonable approaches with the South African government to
discontinue its policies, but that this had not brought about sufficient reforms.
Consequently, the only way the South African authorities could be expected to react to
their demands would be by experiencing the sacrifices of savage sanctions. They,
therefore, would press for an escalation of sanctions irrespective of the economic
damage until their specific constitutional goals had been achieved.

Another reason for the divergent rather than unified sanctions approach to South Africa
revolved around issue of the distribution of the costs of a "united front" to sanctions. It
was widely accepted that the only tangible effects of imposing sanctions could be
expected if South Africa's major trading partners applied such sanctions. It followed that
those countries that were wary of sanctions were also the ones that had to bear the
greatest costs associated with discontinuing economic links with South Africa. Therefore,
the governments of the important trading partners were not prepared to incur increasing
costs by imposing comprehensive sanctions to support the radical views of the anti-
apartheid groups which had goals and ideologies that could not be reconciled at the time
with Western democratic values.32

Even between the important trading partners themselves, there were irreconcilable
differences regarding their approach to South Africa.33 Although there was an emphasis
on the need to consult with each other so as to attempt to act in an unified manner, they
had different domestic priorities that had to be addressed and different economic
interests to protect, which made the imposition of the restrictive measures very difficult
to co-ordinate. The reason for this was that in order to gain wide ranging support for
sanctions, the interests of their domestic communities had to be taken into account, and
because these interests often differed, so too would the scope and nature of the
particular sanctions. As a result, the level of commitment differed significantly and
promised to become even more pronounced with the issue of the escalation of sanctions.

32 See chapter 5, footnote 62 for the estimated costs of a total embargo.
33 This was exacerbated by the fact that in the U.S. there was a no clarity in policy towards South Africa
because of the difference in approaches between the Administration and Congress. Clough (1988: 1)
indicates that there was "a tangle of policies toward southern Africa that are incoherent, inconsistent and
largely ineffective."
This consideration reduced the prospects for further concerted action that could severely have damaged the South African economy. This limitation of multilateral support was, for example, acknowledged by the Commonwealth Expert Group which concluded that "it must be assumed that some of South Africa’s important trading partners which have long-standing economic ties and which are politically opposed to sanctions will be reluctant, and thus half-hearted, participants. All together, then, we could not hope to make the (sanctions) package more than two-thirds effective." (Commonwealth 1989: 93).

8.4.2. The comprehensive nature of the sanctions measures

By 1985 the countries that had not imposed any significant sanctions against South Africa could no longer openly support the South African government and had to act to appease the growing number of apartheid critics in international forums and domestic organisations. Sanctions had to be seen to be used even though they were not that effective. Now it became a question of which sanctions were to be imposed that would not only reflect the symbolic disapproval of apartheid, but would also be perceived to have a visible impact on the South African economy without, however, disadvantaging economic interests unduly in either the sender or target countries.

The emphasis of the original sanctions packages prior to 1985 had been to concentrate on the products that were regarded to be of strategic importance to South Africa, namely oil and arms. The new wave of sanctions in 1985-87 incorporated a whole new range of restrictive measures from the various countries. This expansion reinforced and tightened previous measures against South Africa’s strategic imports, while extending the ban to certain South African export products. Equally important was the widening of the net to include not only merchandise trade but also a host of services, and more significantly tourism, credit and finance. These restrictions were no longer symbolic, but actually had the potential to affect the South African economy negatively. There was now a universally growing campaign to interfere in more areas of South Africa’s international economic relations thus promising to increase the costs of doing business with South Africa.
There was also pressure brought to bear on numerous multinational companies based in the industrialised countries, to disinvest from South Africa. Although no legislation forced them to withdraw their operations from South Africa, they were increasingly exposed to the "hassle factor", while the costs of retaining links with South Africa increased considerably. Furthermore, the restriction on new investments to expand limited the growth potential of their operations. Even greater reliance had to be placed on retained earnings to finance local expansion, but this had become especially difficult given the prolonged poor state of South Africa's economy.

Prior to 1985, only the countries with very limited trade and financial links with South Africa had imposed comprehensive sanctions. Consequently, neither the imposition of prohibitive measures nor the withdrawal of a wide range of products could have had an impact of any consequence. Such measures could at best be seen as symbolic rather than as punitive in nature. The sanctions that were imposed by the international community and especially by South Africa's major trading partners between 1985 and 1987 were more significant and wideranging than any measures applied during the previous two decades. The fact that there was significant economic interaction with South Africa meant that these ties were being interfered with as a matter of deliberate foreign policy. It had the potential of reducing the benefits of trade to South Africa, if not individually, then collectively.

Closer analysis reveals, however, that where important trading partners were involved, the new measures were still very selective in nature and far from comprehensive. With reference to diagrams 8.1 and 8.2 it is clear that only 23 countries could be identified as having measures of any potential influence on South Africa. When viewed further it can be seen that only a handful of those countries identified in diagrams 8.1 and 8.2, i.e. the Nordic countries, USA, Canada and Australia had imposed restrictions on most of the products and services identified. However, the products identified in diagram 8.1

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34 South Africa rarely contributed much to profits or assets when compared to their worldwide operations, and even less so after the more than 40 percent devaluation of the dollar value of the rand after 1983, and the reintroduction of the financial rand in 1985 with the discount over the commercial rand of 30 percent, and which exceeded 50 percent a year later. However, they were losing lucrative state and local contracts in their own countries because of their association with South Africa. In addition to this the returns on their existing investments in South Africa were poor. In the US the average contribution of South Africa's profits to total group profits was negligible, while being slightly higher in the UK.
represent a very small portion of South Africa's exports. In addition to this the financial restrictions identified were of very little significance as South Africa had for some time not received any government to government loans, no longer had access to IMF facilities and was no longer attracting any new investments.

Furthermore, the majority of South Africa's exports, i.e. minerals, were not included. These alone comprised between 60 and 70 percent of total export earnings. In addition, not only was the restriction of these products not feasible due to their high value, low volume nature, but the USA Bureau of Mines (1988) had identified many of them to be of strategic economic or security importance which effectively excluded them from any potential escalation of sanctions.

The products had clearly been chosen with certain distinguishing features. Firstly, there were the more symbolic sanctions measures, such as Krugerrands and the withdrawal of landing rights for South African aircraft. The effect of restricting gold Krugerrands was not to reduce gold exports but rather to lose the premium over gold bullion associated with numismatic coins. In addition to this, many products officially selected in the new measures represented a consolidation and formalisation of the different products that had already been discouraged or restricted on an ad hoc basis by the different countries.

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35 Refer to footnote 48 of this chapter for details of strategic minerals. Also see GAO (1988c).

36 As was pointed out earlier in this chapter, the fact that Krugerrands were very popular prior to their restriction encouraged other countries to strike their own gold coins, such as the Canadian Maple Leaf. When the Krugerrand was restricted these countries promoted their own coins to take the Krugerrand's share of the market. However, much of the gold used in these coins still came from South Africa.

37 Items such as South African fresh produce, which was finding consumer resistance in many countries, was already exposed to a reduction in demand. Government to government loans had not been forthcoming for many years. Therefore, the inclusion of these products and services could not be expected to cause a sudden disruption to which the economy would not be able to adapt.
Secondly, because of different political objectives and economic interests among the sanctioning industrialised countries, most of the products reflected the limited extent to which a common sanctions package could be agreed upon, rather than the choice of products that could do most harm to the South African economy. This was necessary in order to include the support of most industrialised countries, even those that were opposed to the use of sanctions in principle. As a result most of the products chosen were of an extremely low intensity.

Country specific interests on the part of the senders of sanctions were also reflected in the particular sanctions packages introduced. The trade sanctions imposed by the major trading partners were concentrated on exports from South Africa that might impact adversely on the latter's economy, but which would have negligible repercussions for the economies of the sender countries. The products had some of the following characteristics:

1. There was an oversupply on the international markets in most steel, coal, textile and agricultural products. The import prohibition of South African products could not influence the international prices unduly but could benefit protectionist lobbies within the sending nations. The withdrawal of South African supplies of these products would not cause disruptions in the sender countries' own production processes.

2. The products competed with the sender countries' own supplies on international markets, e.g. coal. The withdrawal of South African supply could, therefore, boost the sender countries' own export revenues.

3. The products chosen for restriction could be justified to various important lobby groups as being in their interest.

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38 See section 8.3.1 of this chapter.
39 This is seen in the example where Canada, the USA and Australia, all coal exporters, hoped to gain South Africa's share of the coal market in Europe and Japan. However, Portugal, West Germany and Japan excluded coal from their sanctions packages.
40 This is particularly true of the protectionist lobbies in the USA agricultural and mining sectors. Richard Trumka of the United Mine Workers of America suggested that the "exploitation" of black coal workers in South Africa was lowering the "standards of living of coal miners" in America and consequently costing American jobs (Lipton 1987: 163).
Regarding the financial measures, diagram 8.2 shows that mainly new foreign fund flows were restricted. There were no official measures, only voluntary ones, to force the withdrawal of existing foreign investments funds. Therefore, the financial sanctions restricted new inflows of foreign funds but did not force outflows. Added to that, the financial rand mechanism\(^1\) protected foreign exchange reserves from the negative consequences of an outflow of funds associated with disinvestment.

8.4.3. The mandatory nature of the sanctions measures

Until 1985, the only mandatory international measure against South Africa was United Nations' Security Council Resolution 418\(^2\). Even after the 1985-87 wave of sanctions, no further international mandatory sanctions were imposed. However, most countries adhered to their limited measures without deviation and were willing to enforce compliance with these using severe penalties domestically and the threat of sanctions against third countries internationally. This was especially due to the strong domestic political pressure, particularly from non-governmental organisations (NGOs), which exposed lapses from official policy\(^3\), thereby alerting authorities to their task. This, together with the more efficient monitoring infrastructure, reduced both the capacity and desirability to circumvent the sanctions.

However, because the initial official measures were against products and services that had for some time been discouraged and were voluntarily being discontinued, the need for extensive enforcement and monitoring was limited and the consequences of circumvention almost irrelevant. In addition, the enforcement of the measures was left to each individual country's own resources and mechanisms, which in the case of those countries that were opposed to sanctions in principle, could be expected to be pursued with less vigour than in the case of the other countries.

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\(^{1}\) See chapter 9, section 9.6.2 for the manner in which this mechanism protects South Africa's foreign reserves while discouraging disinvestment.

\(^{2}\) The mandatory arms embargo of 1977.

\(^{3}\) The Shipping Research Bureau, amongst other organisations, remained active throughout the eighties to determine from where South Africa obtained its major foreign oil supplies (GAO 1988a: 20). If and when the source was ascertained, publicity would be given to the fact, thereby embarrassing the country concerned, which in turn normally took steps to defuse or rectify the situation by clamping down on the culprits and closing loopholes.
8.4.4. The quick imposition of sanctions at a time when the target country is economically and politically vulnerable

Prior to 1985 the sanctions against South Africa had been severely limited in scope and applied over a long period. Moreover, such measures were clearly unco-ordinated, reflecting the domestic economic rather than political interests of the sender countries, with the notable exception of the Nordic countries. The measures imposed after the 1960 and 1976 periods of unrest were *ad hoc* and symbolic in nature, and did not cause any major disruptions in South Africa. As a result, many of the strongly anti-South African sanctioning countries were frustrated at the piecemeal approach of the major industrialised countries to any campaign to apply punitive measures against apartheid South Africa.

The recurrence of the unrest in 1984 sharply focussed the attention of the international community once again on South Africa. This provided the sanctions lobby with another opportunity to exploit the local unrest as the direct consequence of apartheid, in spite of the introduction of major political reforms, and official commitments to further change. The anti-South African momentum could be maintained both within and across countries as it became apparent that the South African government was unable to restore law and order as quickly as in previous periods of brief recession. The position was aggravated by the dramatic debt standstill, revealing for the first time that South Africa was vulnerable financially, if not trade wise. The governments of the major industrialised countries could no longer ignore the growing domestic and international pressure that was receiving maximum publicity. They had to be seen to be taking some action in the form being demanded by their constituents.

It is interesting to note in this regard that at the time several countries tried to "outsanction" other countries by imposing slightly more significant measures in order to receive bigger publicity for their "greater opposition" to apartheid. As a result of this one-upmanship, the new sanctions became more widespread within the relatively short period of only three years.
In some cases the new sanctions packages contained clauses to escalate sanctions almost automatically after reviewing progress over relatively short periods. In order to add to the threat of further sanctions, new sanctions measures were being advocated. This showed that more sanctions could be imposed in the near future if South Africa did not respond as prescribed.

The speed at which the measures were imposed allowed very little room for the South African authorities to respond and institute measures to either counter or absorb their economic impact, or to accelerate the reform process itself. It will be recalled that the sanctions were imposed at a time when the economy was already in a severe recession, which on the whole also restricted policy options to address the immediate disruptive effects of the relevant measures.

It should be noted, however, that South Africa was not really vulnerable to the measures imposed. In the exceptional case of the Nordic countries that introduced the most comprehensive sanctions packages, the impact could not be expected to be significant. Of South Africa’s entire trade, approximately 80 percent of its imports and 82 percent of its exports were concentrated on the USA, the UK, West Germany, Japanese, French and Italian economies, none of which were particularly dominant on their own. As can be seen from diagram 8.1 only the USA imposed restrictions on most of the products identified. Approximately 15 percent of South Africa’s imports and 12 percent of its exports were accounted for by other industrialised nations, which included the Nordic countries (GAO 1988a: 13). Even comprehensive sanctions by the latter group could not have expected to have a dramatic economic effect.

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44 See section 8.3.1 of this chapter.

45 The Anti-Apartheid Amendment Act (Dellums Bill) of 1988 in the USA.

46 These countries included Austria, the Benelux countries, Norway, Sweden, Switzerland, Canada, Finland, Denmark, Iceland, Ireland, Spain, Australia and New Zealand (GAO 1988a: 13).
What is also apparent from diagram 8.1 is the absence of any of South Africa's major exports which were mostly of a high value, low volume nature, and often non traceable or difficult to substitute. Furthermore, there was the official certified list of strategic minerals in the USA, that was compiled to effectively exempt the minerals from any future sanctions. These minerals, that were primarily produced in or transported through South Africa, were "essential for the economy or defense of the United States and are unavailable from reliable and secure suppliers." (Department of State 1987: 1). The result was that these minerals were effectively excluded from being sanctioned by any Western industrialised country, even if sanctions were escalated further. Gold, diamonds and a range of strategic minerals made up between 60 and 70 percent of South Africa's exports. Taken together, a large proportion of South Africa's exports could not, for practical or official reasons, be subjected to effective sanctions.

There was also built-in resistance to further escalation of export sanctions which actually reduced South Africa's vulnerability. If South Africa's ability to realise sufficient export earnings to finance its rescheduled debt commitments were to be severely restricted, the effect could be that instead of accepting the additional economic hardships there was the strong possibility that South Africa could renege on its debt commitments and provide considerable short-term relief on its external capital account. This would prove to be counterproductive not only because South Africa would receive a short to medium term economic boost, but also because the foreign creditor banks in the sender countries would experience considerable losses.

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47 Although it was possible to determine where gold bullion was mined by scientific testing, the origin of gold in jewellery would be a great deal more difficult to determine (GAO 1989b: 4).

48 The minerals identified as such were andalusite, antimony, asbestos - chrysotile, chromium (including ferrochrome), cobalt, diamonds - industrial (natural), manganese (including ferromanganese and ferrosilicomanganese, platinum group metals, rutile (including titanium bearing slag) and vanadium (including ferrovanadium) (Department of State 1987: 1).

49 A study was undertaken by the General Accounting Office (1989b) to evaluate the feasibility of imposing additional sanctions on gold. Although possible, it would be extremely difficult. In addition South Africa might gain from a price increase as a result of speculative buying.

50 Dr. Denis Worrall, ambassador to the UK, had already raised this possibility in 1985 when he said, "If there were sanctions on the scale indicated by the EPG, South Africa would consider not paying its international loans.... I am not saying this is a consideration at the moment; I must stress that. But if you put South Africa in an extreme situation, that kind of thing might apply." (Hanlon and Ormond 1987: 74).

51 See chapter 9 for a related aspect where Becker and Khan (1990) suggest that if South Africa was pushed too hard on its capital account, it could be expected to renege on its debt commitments. Also see Newcomb (1989).
8.4.5. The escalation of sanctions when political objectives are not met

After the imposition of the "wave" of sanctions between 1985 and 1987, there was continuous and growing pressure for its escalation. There were two main reasons for this. First of all, the sanctions lobby was dissatisfied with the highly selective nature of the new sanctions packages. They regarded the existing sanctions to be insufficient to have any significant impact on achieving their desired political objectives. Accordingly, the sanctions lobby called for the existing measures to be expanded to include more nations and more products. This was also provided for in the CAAA which prescribed to the U.S. President to review annually the extent to which the political demands for reform had been met, and if not, to review the existing sanctions with a view to escalating the measures.

Secondly, the sanctions lobby was of the opinion that an escalation of sanctions would be more effective while South Africa was economically vulnerable due to the low gold price and short-term debt crisis. The argument was that the longer new measures were postponed, the more time South Africa would have to recover economically and to adapt to the new set of circumstances.

"...The economy has very little space to absorb new sanctions, especially in the next two years. If sanctions, the debt bulge, and falling gold prices all hit the apartheid state at once, the result could be overwhelming. Hitting South Africa with new sanctions during the 1990-91 debt bulge could have an important multiplier effect, while delaying might make even a greater sanctions package insufficient. Thus it is essential to hit South Africa during the 1990-91 period." (Commonwealth 1989: 93).

However, even with these forces continuing to demand an escalation in sanctions on the one hand, while the socio-political unrest position in the country persisted on the other, no new measures were introduced at national level. As pointed out above, the extent to which the range of products could be further expanded was also limited because it was not really feasible or cost effective to impose sanctions on the remaining 30 to 40 percent of South Africa's non-mining exports, which were not only of a diverse nature but were also destined for numerous different countries. The few existing products

52 Sanctions measures continued to be implemented at state and local level in the USA, but not at national level.
under sanctions represented both the lowest common denominator of agreement as well as an easy first choice. For any escalation to meet the desired level of economic disruption it would effectively have to include almost all those South African export products that were not officially excluded for strategic reasons or that were not regarded as vulnerable for practical reasons. As was mentioned earlier, between 60 and 70 percent of South Africa’s exports were in effect excluded from sanctions as strategic for the USA. This allowed for only approximately 30 to 40 percent of South Africa’s remaining exports to target further. By including measures against a much wider range of products, the more expensive it would become for the sender countries to enforce and monitor any such sanctions. The steps that would have to be taken to ensure compliance would be astronomically expensive. In addition to this it would also be extremely costly to impose measures against third countries in order to enforce universal compliance.

Although pressure grew and provision was made for an escalation of sanctions, this escalation would prove unlikely for good economic reasons, even more importantly, for political reasons given the fact that South Africa had already committed itself to reform away from apartheid and also because it was never really the intention of the major industrialised countries to impose savage sanctions.

The foregoing survey, after closer analysis, even with the seemingly multilateral support for comprehensive measures, supports the conclusion that the actual sanctions fell short of what could reasonably be required to bring about the desired political impact, let alone the economic dislocation, that might have been expected to accelerate the process of reform. The sanctions imposed were limited in that they were highly selective and not universally applied. Many countries imposed different measures, but the common range of products and services affected by the sanctions of the majority of the industrialised trading partners of South Africa viewed as a whole was relatively small. The fact that the sanctions were not escalated further would suggest that the industrialised countries

53 In 1965 the Expert Committee (United Nations 1965: 228-229) indicated in 1965 that the only way in which an escalation of sanctions could be enforced was through the imposition of a total blockade. A naval blockade alone would require “four aircraft carriers and eighteen escort vessels. This number would have to be doubled to allow for the rotation of the units. The annual cost of the naval blockade alone would be £70 million (1994 value R7.4 billion), rising to £130 million (1994 value R11.2 billion) if it proved necessary to extend the blockade to adjacent territories. There would also have to be very massive additional expenditure for an air control system”.

believed that either sufficient political reform had been made, or that there was uncertainty as to the costs of escalation to the sender countries, or that the latter feared that the escalation could be counterproductive by damaging the South African economy to the extent that it could reduce the capacity of post-apartheid South Africa to deal with its socio-economic problems.

Accordingly two questions arise regarding the impact of the 1985-87 sanctions. The first is whether the measures considered as a whole had any material impact, and secondly, if not, whether a further escalation would most likely have done so. As emphasised earlier, answers to these questions can only be found in the estimated actual or likely macro-economic impact of the particular set of sanctions. This will be discussed in the next chapter. The last chapter in this section will also identify important other developments than sanctions that speeded up the process of abolishing apartheid and preparing the way for internal negotiations to arrive at a new constitutional dispensation based on black majority rule.
CHAPTER 9

THE ECONOMIC IMPACT OF SANCTIONS ON SOUTH AFRICA

9.1. Introduction

The simplistic general theory of sanctions, outlined in chapter 2, suggests that for the political goals of sanctions to be achieved, it is necessary for the intermediate economic goals of sanctions (economic deprivation) to be realised. It is for this reason, and the need to ensure an optimum effect, that scholars and analysts are interested in evaluating the macro-economic impact of particular sets of sanctions. Once measured, the impact will provide an indication as to the likely attainment of the political goals. However, as was stated in chapter 4, such evaluations can also be designed to either promote or undermine the attainment of the political goals, depending on the nature of the studies and their respective uses. Not only is it difficult to measure and interpret the real economic impact of sanctions because of assumptions such as alternative substitutability, but even if the true impact could be determined the result might very well prove to be only tenuously related to the success or otherwise of the sanctions in terms of their political goals. It follows that although studies of the impact may provide an indication of the likely order of magnitude of the economic discomfort experienced by the target country, it is often the political perception that is created by such studies that is more relevant in shaping impressions regarding the success or otherwise of particular sanctions policies.

Although several studies regarding the most likely impact of sanctions against South Africa have been done\(^1\), few have been undertaken since the imposition of sanctions to determine the actual impact. The approach is either to look at the specific costs of the industry/product sanctioned\(^2\), or at the overall macro-economic impact\(^3\). Regarding the

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1. Spandau (1979), Porter (1979) and South African Federated Chamber of Industries (1986), for example.
2. See for example, United Nations (1989), and Hunt and Nagle (1987) reports.
3. Examples are provided by the GAO (1989a) report and particularly also the study by Botes (1992).
latter, an *ex ante* study would construct various scenarios by extrapolating certain assumptions from a static base, i.e. all other things remaining the same. An *ex post* analysis would normally use decomposition techniques to isolate the particular impact of sanctions from other determining forces at work.

The results of these analyses are important as they influence the perceptions which are central to the sanctions policy itself. The importance of shaping perceptions is evidenced by the experience that more scenarios of the possible impact of sanctions are normally constructed than studies are made of the actual impact. The *ex ante* analyses of imposition may be useful in selecting the products that will provide the maximum net effect in terms of a cost-benefit approach, while the *ex post* analyses mainly influence the prospects for further escalation. Because the results of such studies are of great political importance in influencing the direction of the entire sanctions debate, they can be conveyed and interpreted in such a manner as to suit the agenda of the parties involved in the sanctions debate. Accordingly, the results of such analyses should be viewed with circumspection, and the source of the results as well as the interpretation thereof should be borne in mind when evaluating the real overall impact obtained.

This chapter will briefly summarise and reflect on some of the industry/product specific costs that were calculated to give an indication of the direct costs involved. Thereafter, attention will be given to studies of the overall impact of the mid-eighties sanctions and the possible consequences of further escalation in order to arrive at the most objective economic impact viewed in a dynamic context. A distinction will be made between trade and financial sanctions. Finally, their combined impact together with that of further possible escalations of sanctions will be related to the impact that was perceived to be necessary at the time to bring about certain desired political changes. The effectiveness of the actual sanctions measures applied to serve various political goals will be reserved for evaluation in the concluding chapter of this study.

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4 Becker and Khan (1990) follow this approach.

5 This technique identifies and first accounts for the impact of important non-sanctions factors. The residual, which cannot be explained by any other factors, is then arrived as the impact of the sanctions. The studies by Botes (1992) as well as that of Becker and Pollard (1990) follow this approach.
9.2. The costs of the pre-1985 import sanctions

The emphasis of sanctions against South Africa before 1985 had been on restricting specific South African imports, particularly those thought to be of strategic importance to the functioning of the economy and used in destabilising neighbouring countries.

9.2.1. Oil

Already in the early sixties sanctions against oil imports were considered an ideal measure to burden the South African economy as 65 percent of South Africa's oil requirements were imported. Oil meets 20-25 percent of South Africa's energy needs which in turn accounts for 80 percent of energy consumption in the transport sector (Riddell 1988: 254). South Africa was dependent on foreign sources for its oil supplies which could only be obtained from a few countries. It was an easily identifiable product and, therefore, also relatively easy to subject to sanctions. Since South Africa does not produce any crude oil itself, this was regarded as South Africa's "Achilles Heel". As a result it was thought that the complete cessation of oil imports had the capacity to have a major disruptive impact on the economy.

The first oil boycott was experienced in 1973 when OPEC restricted the direct supply of crude oil to South Africa. At the time however, South Africa still received oil from Iran. After the 1979 Iranian revolution, this source also dried up and South Africa had to source its oil mainly through commodity brokers.

South Africa was, however, always able to sustain sufficient oil supplies for its economy, albeit at a premium estimated to be between $8 and $2 per barrel, depending on market conditions. Such imports constituted the second largest category of imports in 1987 after vehicles and transport equipment. It was valued at $1.88 billion (UN 1989: 11) at the time, and could have included imports for stockpiling purposes.

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6 South Africa does not use oil but coal in its power stations to generate electricity.
7 This premium was estimated to be $10.7 billion between 1974 and 1984, which translated to roughly 10 percent of export earnings (Riddell 1988: 254).
South Africa was a pioneer in the extraction of oil from coal after World War II, and exploited its vast coal reserves to supply a large portion of its petroleum requirements. With the development of SASOL\(^8\) the country was able to increasingly substitute its own petroleum for the petrol refined from crude oil imports. The supply of diesel was, however, still dependent on the importation of crude oil. South Africa had also undertaken building up strategic oil stockpiles\(^9\), which were stored underground in disused mines. All these measures reduced South Africa's vulnerability to a complete cessation of oil supplies and reduced the disruptive effect of any complete boycott. South Africa's vulnerability had therefore been reduced, albeit at a cost, which was by no means crippling.

### 9.2.2. Armaments

In 1977 the previous voluntary arms embargo against South Africa was expanded to become a mandatory United Nations sanctions measure\(^10\). South Africa responded to this by rapidly developing a local arms industry. Within a few years it was able to provide sufficient\(^11\) and suitable resources for the type of conflict situation it was involved in, namely a bush war, and to become a considerable arms exporter\(^12\). Although, the armed forces developed certain unique products that enhanced their military capacity, they still remained dependent on certain imported components and know-how obtainable through the clandestine international arms network, albeit at a premium. Furthermore, the larger items (fighter aircraft, submarines) were no longer available, nor could the high cost of their local manufacture be justified.

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\(^8\) Suid-Afrikaanse Steenkool en Olie Maatskappy.

\(^9\) There was storage capacity of 180m barrels. This could contain up to 20 months of imported crude requirements. (Financial Mail 1993: 39).

\(^10\) Resolution 418 was passed by the Security Council on 4 November 1977.

\(^11\) South Africa's self sufficiency in arms had risen from roughly 40 percent to 85 percent under the embargo (Economist 1985).

\(^12\) No official figures for arms imports or exports exist. However, there are indications that by 1988/89 the foreign exchange earnings from the export of the arms industry was second only to the foreign exchange earnings generated by gold.
"Loopholes" in the arms embargo were highlighted by various anti-apartheid groups from time to time. One of these was the dual purpose use of some exports to South Africa. These entailed industrial equipment that had a potential military application. Many of these dual purpose items fell within the electronics sector. The result was that a growing list of high-tech goods, including computer hardware and software, was banned both voluntarily and officially, from being destined to South Africa.

In evaluating the impact of these mandatory arms sanctions it is necessary to bear in mind that their purpose was more to reduce South Africa's ability to act aggressively and partly to defend itself against hostile attacks than to damage the economy. It can be said with confidence that the arms embargo did not, however, reduce South Africa's capacity for aggression, nor its ability to defend itself over the medium term. It may have even had the opposite effect.

9.2.3. The cost of restructuring the economy to reduce its dependence on imports

In view of the lack of reliable information, and the dubious nature of both the direct costs of procurement as well as indirect costs of adjustment to the voluntary oil and mandatory arms embargoes, it is difficult if not impossible to quantify their economic impact with any degree of certainty, even more so in the case of their political effect. Indeed, any such attempts raise the economic policy issue of import substitution in order to become less dependent on imports as an objective, or to industrialise by manufacturing for the home market rather than export. South Africa pursued both aims, but it depends on the assumption of the analyst which one weighed heaviest and to what extent, as these two policy aims are not always in harmony.
A good example of the *ex post* approach is provided by a macro-economic study undertaken by Becker and Pollard (1990), although not without qualification. According to this approach the real costs of the threat of sanctions were substantial, and will continue to be so over the long term. The conclusion reached is that had South Africa not embarked on such a vigorous programme of import substitution since the middle sixties and rather used the scarce resources more efficiently in exploiting comparative advantages, the economy could have been 20-35 percent larger by the end of the middle eighties. The true cost of the sanctions, or threat thereof was, according to this approach, considered to be the difference between the actual GDP growth rate, on the one hand, and the extrapolated rate that would have occurred if the scarce resources had been used in a more efficient manner, on the other. "This loss is the cost of continuing an apartheid system and taking measures to build a less dependent economy" (Becker and Pollard 1990: 26).

The yardstick of potential growth, as reflecting the cost of sanctions over time, is controversially assumed by the authors to be about half the growth rates per capita (2-3.5 percent) experienced by certain other semi-developed countries "with remotely sensible economic policies that have not witnessed collapses in their major export markets" over the past 25 years (Becker and Pollard 1990: 26). It is perhaps needless to point out that if the rate of growth of the countries that did experience such external shocks had been used as a yardstick instead, then the results would have been quite different. Nevertheless, the results of the Becker and Pollard study also suggest that, even though the policy of "excessive" import substitution was expensive, it had removed

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13 One should perhaps differentiate between "normal" import substitution in the process of industrial development and "excessive" or forced import substitution where a country is denied certain imports as a sanctions measure and decides to become less dependent on imports generally.

14 Becker and Pollard (1990) highlight the cost to South Africa as being the government's policy to promote import substitution in order to fend off the threat of sanctions.

15 The belief is that the structure is embedded in the South African economy and that any attempt to reverse the structure towards a normal rather than siege economy will take a long time to finalise, even if sanctions were lifted immediately (Becker and Pollard 1990: 26).

16 In footnote 10, given at the end of the study (Becker and Khan 1990) on page 124 but not notated in the text, it is pointed out, however, that "It should also be recognised that much of South Africa's import substitution might well have occurred naturally both as the economy matured and in response to 'natural' political pressures, as has been the case in many semi-developed Latin American nations".

17 Reference to chapter 6 suggests that at least during the seventies and eighties such high growth rates were confined to East Asian economic "miracles", while South Africa in fact experienced external shocks in line with many semi-developed countries other than in Asia.
any Achilles heel that South Africa might have had. South Africa was in fact far less vulnerable than ever before to a disruption of import sanctions. According to the authors, "Part of the credit for this achievement should go to the Western nations, who have made ominous noises for years, but who have resisted imposing stringent sanctions." (Becker and Pollard 1990: 26).

The "excessive" import substitution should, however, be placed in a more realistic perspective. Building up strategic economic interests to enhance the country's defence against perceived threats is an acceptable, although wasteful utilisation of resources anywhere. The costs incurred to do this could be seen as a necessary strategic sacrifice. The policy of import substitution has also led to the establishment of new industries together with the development of skills that would otherwise not have been available today. Some comparative advantages have subsequently been developed in these industries. The result is a more diversified industrial base, while both of the affected industries, oil and arms, are competitive exporters with large inter-industry linkages. Finally, the process of import substitution took place over decades and did not result in any major disruptions in the overall economy to which the country had to adjust suddenly.

9.3. Restrictions on exports - the 1985-1987 sanctions packages

The 1985-87 sanctions packages, besides reemphasising existing restrictions on imports, attempted to broaden the sanctions policy against South Africa by targeting exports and financial services. The measures specifically identified a range of South African export products which affected certain industrial sectors directly. In this regard it should be pointed out that prior to 1985, certain exports from South Africa were already experiencing market resistance but there were no official sanctions on South African exports. The former were known as "people sanctions", whereby the buying public exercised their right not to buy South African produced goods. The ongoing adverse impact of these non-official sanctions would be included in the results obtained by using

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18 See Hunt and Nagle (1987) for a detailed analysis of the direct costs of the sanctions to each industry affected. They do not only identify the decrease in volumes but also look at the implications of the losses in each industry of employment opportunities.

19 In the UK, Outspan oranges were avoided as a result of being South African produce.
the decomposition technique in determining the overall economic impact of the 1985-87 sanctions measures, which affected\(^{20}\) Krugerrands, coal, certain agricultural products, certain iron and steel products, uranium and textiles.

9.3.1.\hspace{5mm} \textbf{Gold in the form of Krugerrands}

The ban on the purchase of Krugerrands in most countries resulted in a dramatic drop in sales of these gold coins from South Africa. The true impact of course was not a corresponding loss in the sale of gold, but only the premium\(^{21}\) involved in the value added to convert gold into numismatic coins. At the same time, the ban on Krugerrands had stimulated worldwide interest in gold coins, and many countries responded by minting their own gold coins. Ironically, many of these countries sourced their gold from South Africa for this purpose (Hunt and Nagle 1987: 27). The loss was, therefore, more symbolic than real.

9.3.2.\hspace{5mm} \textbf{Coal.}

South Africa was the fifth largest producer of coal in the world, and the second largest in the non-communist world after the USA at the time. The immediate impact of the ban on South African coal exports was a loss of 0.8 million tons to the USA, 3.4 million tons to Denmark and 6.4 million to France\(^{22}\) (Hunt and Nagle 1987: 28). Initially the coal industry found it difficult to divert its sanctioned exports elsewhere. It could not easily

\(^{20}\) While the USA directly restricted these products, the EEC and Commonwealth only recommended that these products should be restricted. However, each of these European countries would have to impose the sanctions in accordance with its own commitment to sanctions. Some countries imposed comprehensive measures (Nordic countries), some on all the recommended products, while others restricted fewer products.

\(^{21}\) Gary Hufbauer, in an interview with Barron's, suggested that the premium in 1985 was considered to be 4-5 percent. At the time, the USA imported roughly $500 million of Krugerrands. The loss in premium for South Africa would amount to no more than $15 million (Donlan 1985: 18).

\(^{22}\) France was in the process of downgrading its coal purchases anyway to make room for nuclear power.
find new markets as world demand was depressed, or evade the existing sanctions because the coal was easily identifiable\textsuperscript{23}, even if blended with other coal\textsuperscript{24}. The result was that in 1986, total coal exports dropped from 44.5 million tons to 42.5 million tons, and to 40 million in 1987 (GAO 1988b: 15).

In order to maintain market share, prices were cut\textsuperscript{25}. This price cutting represented a 15 percent decline in export earnings from coal between 1985-1987 (Hunt and Nagle 1987: 28 and United Nations 1989: 16). However, the negative impact was neutralised and reversed after 1987 when the earnings from coal exports improved as prices received by the South African industry increased\textsuperscript{26}. The price of coal on the international markets had increased from $25/t in 1987 to $28/t in 1988. South Africa's coal receipts rose by almost 20 percent in 1988 over 1987 levels (EIU 1989a: 26). In addition to this, volumes increased to almost pre-sanctions levels implying further improved total earnings from coal. In 1989 exports were expected to reach 44 million tons, slightly below 1986 highs. Expectations of further improved export volumes resulted in capital expenditure being undertaken at Richards Bay to increase its export capacity to 48 million tons (EIU 1989b: 27).

\textsuperscript{23} The fact that South African coal was of a high quality was one of the factors that made it easily identifiable.

\textsuperscript{24} A blend of coal containing South African coal which was mixed in Rotterdam with coal from other countries was known as "Dutch coal". When mixed with Chinese coal it was known as "Dutch Blend" (Observer 1988).

\textsuperscript{25} Prices were lowered by an average $5-7 per tonne. The lower coal prices were said to have cost U.S. coal exporters $250 million between 1985 and 1987 (WEFA 1988: 11).

\textsuperscript{26} This quick reversal in the price was important for South Africa in reducing the impact of sanctions because "international coal transactions are typically negotiated on a long term basis. Once incorporated into the decision making process, the impact of sanctions is long-lived since the lost market share is extremely difficult to recapture once business ties are formally established, and once operations (furnaces and boilers) are tuned to burn specific coal types with unique chemical and physical properties (WEFA 1988: 12).
9.3.3. Agricultural products

The main agricultural products to be affected were sugar, deciduous fruits, citrus, wine and wool which comprised roughly 6 percent of total export earnings. Initial estimates were that 15 percent of production of these products went to the USA. However, the GAO suggests in their analysis that South Africa was able to redirect its lost markets to other countries, specifically Taiwan, Italy, Japan, France, West Germany and Israel. Not only was this initial loss in exports redirected but the volume of exports also subsequently increased by 13.8 percent (GAO 1988a: 15 and GAO 1988b: 24).

9.3.4. Certain iron and steel products

South Africa's steel production ranked 14th in the world at the time and made up 6 percent of its total export earnings. 582000 tons went to USA27 under the Administration's steel trade restraint programme (Hunt and Nagle 1987: 26). This represented approximately 33 percent of South Africa's iron and steel exports to 80 countries (Riddell 1988: 252). Initial estimates were that there was a 15 percent reduction in export earnings from this category (GAO 1988b: 15).

However, South Africa's major iron and steel producers soon compensated for this and enjoyed once again a resumption in export growth. They were successful in finding alternative and new markets which enabled them to regain their pre-sanctions production levels and plan for new expansion. In some sections, exporters indicated that they were not able to meet foreign demand for their products.

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27 Secondary steel products like tubes, pipes and wire rods were not covered by the CAAA.
9.3.5. Uranium

Exports of uranium accounted for 2 percent of South Africa's total export earnings (Riddell 1988: 252). The initial loss was a 25 percent decrease in such exports. Initially the USA Administration tried to remove uranium from the sanctions legislation as it was experiencing problems with its own enrichment plants. This attempt was not successful, however, and the ban remained. Later President Reagan granted permission for the import of uranium hexafluoride for processing and re-export (GAO 1988b: 15).

Although internationally there was a surplus of uranium which affected market prices negatively, South Africa remained the second largest producer after Canada. It was able to deliver at lower prices because uranium was recovered as a byproduct of gold mining (Hunt and Nagle 1987: 29).

9.3.6. Textiles

The export of clothing made up for 3 percent of total export earnings. Although the clothing industry was not really export oriented with only 6 percent of production being exported, the fact that half of these exports were destined for the USA resulted in an immediate reduction in sales. However, orders from the USA were already being reduced prior to sanctions due to anti-South African sentiment on the part of consumers (Hunt and Nagle 1987: 24). South Africa was able to recover some of this loss by increasing exports to other countries (GAO 1988b: 15).

The sectoral analysis of the impact of sanctions outlined above gives an indication of the actual direct loss in exports to South Africa of the specific products sanctioned. It shows that some industries were more affected than others. It also suggests that although there was an initial loss in sales, they were soon recovered in almost all cases. The costs of the sanctions were, therefore, reduced over time, and even eliminated in some cases. However, the mere fact that there were costs, albeit limited, does not mean that sanctions had achieved any of their economic or political goals. In order to be able to make such an evaluation it will be necessary to have some impression of the order of magnitude of the overall (macro-economic) impact of such costs, and to put it in perspective by relating it ultimately to the broader political objectives of sanctions at the time.
9.4. The actual impact of the 1985-1987 export sanctions

9.4.1. The immediate macro-economic impact

It is only by analysing the macro-economic costs of the sanctions imposed against South Africa that some clarity can be obtained as to how they could possibly relate to their political objectives. As was mentioned in chapter 2, it is important to impose sanctions that will reach the threshold at which the target country will respond politically in the desired manner. Imposing costs should not be seen as an end in itself but should always be related back to the relevant political objectives.

Studies of the impact of actual export sanctions against South Africa have been undertaken by the Commonwealth Expert Group (CEG) (1989), the General Accounting Office (GAO) of the US Congress (1989a), Becker and Pollard (1990) and Botes (1992). Their findings are set out below.

Table 9.1: The immediate macro-economic impact of the 1985-1987 sanctions according to different studies

<table>
<thead>
<tr>
<th>Institution</th>
<th>Percentage loss</th>
<th>Amount ($ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Exports (excl gold)</td>
<td>Total Exports (incl gold)</td>
</tr>
<tr>
<td>Commonwealth Expert Group¹</td>
<td>-12</td>
<td>-7</td>
</tr>
<tr>
<td>General Accounting Office²</td>
<td>-5</td>
<td>-3</td>
</tr>
<tr>
<td>Botes³</td>
<td>-2</td>
<td>-1.5</td>
</tr>
<tr>
<td>Investor Responsibility Research Center⁴</td>
<td>Too small to calculate with confidence</td>
<td></td>
</tr>
</tbody>
</table>

4) Becker and Pollard (1990: 8 and 30).

This report concentrates on trade with 26 countries for a short period.
It should be emphasised that these figures reflect the first year losses only, i.e. 1987. One can also assume that the results outlined above probably show the greatest possible impact as time permits adjustments and the finding of alternative markets to minimise the impact. The suddenness with which the sanctions had been imposed left many participants exposed. This meant that positions had to be covered very quickly. Orders were canceled. Production runs had to be changed or slowed. Existing orders had to be rerouted while new markets had to be found for the excess supply of unwanted or restricted goods. Therefore, some of the goods had to be dumped at firesale prices on international markets. The disruptive nature of the dramatic changes imposed additional costs over and above the normal costs associated with the reduction in trade, i.e. volumes. It follows that some industries were more affected than others. Those industries whose products were targeted, were likely to be affected to a greater extent than other industries which might have experienced the impact of sanctions only indirectly.

From table 9.1 above it is interesting to find that three of the four studies have more or less similar findings. The last three mentioned put the total estimated loss in export earnings for 1987 at less than half a billion dollars, or three percent of total exports including gold. Only the results of the study undertaken by the CEG are significantly out of line with the other studies. Their estimate is more than double that of the next highest. The fact of the matter is that when such short-term losses are compared with the normal fluctuations of between minus 7 percent (1981) and plus 43 percent (1985) in export earnings in rand during the first half of the eighties, the overall result must be regarded as no more than marginal. Over time and in the absence of an escalation of sanctions, the impact was to diminish even further.

Another interesting aspect of the above mentioned analyses relates to chapter 4. There the fact that estimates of the impact of sanctions are important in influencing the policy makers was highlighted because the perception of an impact is often more relevant at the time than the actual impact. Since there is always a great deal of propaganda and emotion surrounding the imposition and the calculation of the impact of sanctions, it is

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29 See the summary of the impact of sanctions on individual sectors highlighted earlier in section 9.3 of this chapter.
difficult to claim a high degree of objectivity in analysis regarding the economic impact of sanctions at the time. This is borne out by the Commonwealth estimate which is significantly out of line with the other studies. Rather than criticise their competence of economic analysis, their objectivity should be questioned. One could have expected such an inflated result from this quarter because it supported their goal of imposing severe economic hardships on the South African economy. With their perception of a much higher economic cost for the limited sanctions already imposed, the implication was that escalation would result in extremely high costs, and if the target country took notice of this, it would provide a strong incentive to address the political objectives of these groups.

9.4.2. The immediate impact is reduced over time

The immediate impact outlined above also has to be seen in a dynamic context. The estimates of the extent of the loss of export earnings were all based on a breakdown of relevant quantities and respective countries at the time of the analysis. There is little scope in one year to include the impact of a likely response on the part of the target country to adapt to the measures. Any measure of the net impact had to look beyond 1987 and take account of diverting exports and tapping new markets.

South Africa responded to the sanctions by adapting to the sanctions rather than taking steps to isolate itself further from the international economy, although this remained an option if sanctions were escalated further because the government had not committed itself to reform but remained committed to apartheid. South Africa took steps to reduce the losses in its major markets by diverting its trade to existing as well as new markets. Concerted efforts were also made to explore and develop new markets, particularly in the East, where considerable inroads were made. This reduced the market share of other traditional suppliers that had instead anticipated an increase in market share due

30 See chapter 2, section 4 to show the various implications of a target country's response.
the exclusion of South African products. The volumes lost originally soon regained their pre-sanctions levels and capacity constraints were experienced to meet new export markets. In several cases the discovery of new markets had considerable lasting advantages.

An important distinguishing aspect of the selective 1985-87 sanctions was that South Africa's major trading partners also became involved directly in applying restrictive measures, even though not in any major way nor on a unified basis. The USA, who had become South Africa's largest trading partner in 1984, experienced the most severe drop in trade with South Africa. Exports from South Africa dropped by $921m while imports from USA fell by $585m (Commonwealth 1989: Table 1.1) as it had imposed the most stringent measures among all of South Africa's major trading partners. The USA's market share for exports (excluding gold) from South Africa declined from 20.6 percent to 12.6 percent, while USA's share as a supplier of South Africa's imports dropped from 14.2 percent to 13.4 percent (GAO 1988a: 14-16).

Part of the reduction in export earnings was made good by increasing exports to other important trading countries. Exports to countries such as Japan and West Germany expanded, even though they themselves had imposed limited sanctions against South Africa. These countries could not, however, be seen to be increasing their trade with South Africa too rapidly as they were sensitive to the possible threats from the USA. Provision had been made in the CAAA to apply sanctions against another country if it should benefit from increased trade with South Africa at the expense of the USA. Both West Germany, but especially Japan were not willing to provoke the USA in this regard and continuously attempted to avoid being labelled as South Africa's largest trading partner. However, the expansion of USA sanctions against other countries that had increased their trade with South Africa never materialised. These countries themselves pointed out that they would certainly consider countering such measures with restrictions of their own against the USA.

31 For example, Australia and Canada, also important mineral exporters, found that in the case of coal, importers were playing off South Africa's lower prices against theirs which led the way to a long term fall in prices (WEFA 1988: 12).
32 Section 401 of the CAAA.
33 Britain, for example, responded with its own threats against USA companies to measures that were being instituted against one of its multinationals, Shell, which was being targeted by anti-apartheid organisations in the USA.
The reduction in the exports to some countries that had imposed sanctions against South Africa was also offset by the limited circumvention of sanctions. The original markets that had officially closed their doors to some products were still, to a limited extent, able to be exploited. Use was made of rerouting\(^3\), relabeling certificates of origin\(^5\) and discounting\(^3\) for this purpose. Apparently these did not, however, comprise a large part of the sanctioned exports\(^7\).

The result of all these efforts meant that within a period of only 18 months to two years the initial negative impact of the selective export sanctions had in general been offset. This is clearly shown by Botes (1992) who compares the actual earnings of sanctioned export products against an extrapolated non-sanctions export trend, the latter having been compiled from universal market trends. From table 9.2 it can be seen that after two years the actual level of exports with sanctions is higher than the extrapolated figure without sanctions.

A further possible reason for the reduction in the initial impact of sanctions is the fact that no new sanctions were imposed\(^3\) afterwards. This could have had the effect of continuously increasing the costs associated with the reduction in exports. The outcome of the potential export trend is examined in table 9.2.

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34 Japan imported steel into the USA via its subsidiaries and reexported it to Japan. This had the effect of allowing USA trade figures to increase while Japan's trade with South Africa fell (Financial Times 1988).

35 South African coal still entered Europe indirectly in the form of "Dutch Blend" referred to earlier. It comprised a mixture of South African coal with coal from other countries such as China and Poland. Wine was exported in bulk and used in blended wines in Europe. Some of the Frontline States were also used to overcome sanctions by supplying Europe with products such states did not produce (GAO 1988a: 20).

36 Known as the "apartheid discount" being the difference between the normal market price and the price at which South Africans could sell their products.

37 McDougall (1988) in analysing the extent to which the CAAA was adhered to concludes that the Administration implemented most of the measures faithfully. She did, however, find that it was not always "with the spirit of the Act" in pursuing a co-ordinated strategy with other industrialised countries (McDougall 1988: iv).

38 See chapters 7 and 10 for possible reasons why sanctions were not escalated after the initial wave of sanctions were imposed between 1985 and 1987.
Table 9.2: Impact of sanctions on merchandise exports (excluding gold) since 1986 (constant 1985 prices)

<table>
<thead>
<tr>
<th>Year</th>
<th>Merchandise exports with sanctions (R million)</th>
<th>Alternative estimated series for merchandise exports without sanctions (R million)</th>
<th>Net effect of sanctions (R million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1987</td>
<td>21927</td>
<td>22383</td>
<td>-456</td>
</tr>
<tr>
<td>1988</td>
<td>23521</td>
<td>22769</td>
<td>752</td>
</tr>
<tr>
<td>1989</td>
<td>27567</td>
<td>25756</td>
<td>2801</td>
</tr>
</tbody>
</table>


From this analysis it is clear that the impact of the selective trade sanctions, particularly export sanctions, was limited and soon neutralised. This is confirmed from results indicating that although initially there was a marginal fall in export earnings, there was no structural downward trend that occurred after the imposition of sanctions as would have been expected if a considerable range of export products was permanently removed from the country's export portfolio (Botes 1992: 183). This reduced impact on export earnings can be considered to be very small and almost negligible by any standard, particularly in the light of the sacrifices that had to be made in rescheduling South Africa's short-term debt burden.

9.5. The possibilities of escalation

Sanctions against South Africa has been an interesting subject since 1964 when their possible use was first analysed in some detail. A United Nations sponsored conference, convened by Ronald Segal (1964), studied the structure of the South African economy for the first time with the view to imposing sanctions. At this conference it was shown that the economy was open and, therefore, dependent on the foreign sector for its economic well being. It also identified those specific foreign products on which South Africa was particularly dependent. As a result, it was thought that if sanctions were imposed, they could exploit those areas that had been identified as being vulnerable and consequently be effective in causing economic hardship.
This study also formed the basis of numerous subsequent and more refined studies\textsuperscript{39} which took the sanctions debate further. Attempts were made to determine the potential impact of different levels of sanctions\textsuperscript{40}. These scenarios provided a likely outcome with which the actual impact of the sanctions could be compared and judged. It should be pointed out that scenarios are by their very nature dependent on the assumptions chosen. It follows that since the results of the different scenarios are often taken into account by policy makers, the possibility always exists that certain results could be deliberately created with the intention to influencing the policy in a certain direction. For this reason it is necessary always to first determine how realistic the relevant assumptions, on which the scenarios are based, are before evaluating the results obtained.

The marginal to negligible economic impact of the 1985-87 export sanctions can firstly be confirmed by comparing the actual impact with the potential impact of the escalation of sanctions calculated by Becker and Khan (1990). They undertook the most comprehensive and systematic analysis of the possible impact of sanctions on a range of economic variables, which enabled them to determine the impact on income, of selective and comprehensive (mild and extreme) sanctions over time, for different racial groups as well as neighbouring countries, while also taking the impact of possible countermeasures on the part of the target country (South Africa) into account.

\textsuperscript{39} There were studies by Spandau (1979) and Porter (1979).

\textsuperscript{40} Becker and Khan (1990).
Table 9.3: Assumed effectiveness of selective and comprehensive sanctions if generally adopted

<table>
<thead>
<tr>
<th>Selective Sanctions</th>
<th>Assumed Degree of Enforcement</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Boycott of exports from SA:</td>
<td>25% decrease in quantity exported by SA. 20% decrease in price SA receives on remaining 75% of these exports</td>
</tr>
<tr>
<td>(uranium, coal, iron, steel agriculture goods and textiles)</td>
<td></td>
</tr>
<tr>
<td>2. Embargo of exports to SA oil:</td>
<td>10% decrease in supply, 20% price increase</td>
</tr>
<tr>
<td>computers:</td>
<td>30% decrease in supply, 20% price increase</td>
</tr>
<tr>
<td>3. Capital sanctions:</td>
<td>alternately fully imposed and not imposed</td>
</tr>
<tr>
<td>(short term and long term lending to and investment in SA)</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Comprehensive Sanctions</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Boycott of exports from SA:</td>
<td>alternately 10% and 20% of total export earnings (TEE)</td>
</tr>
<tr>
<td>gold and other mining:</td>
<td>alternately -7% and -14% of TEE</td>
</tr>
<tr>
<td>agriculture and food:</td>
<td>alternately -1.5% and -3% of TEE</td>
</tr>
<tr>
<td>textiles, base metals, chemicals fabricated metals, transportation equipment and other equipment:</td>
<td>alternately -1.5% and -3% of TEE</td>
</tr>
<tr>
<td>2. Embargo of exports to SA oil:</td>
<td>15% decrease in supply, 20% price increase</td>
</tr>
<tr>
<td>chemicals:</td>
<td>15% decrease in supply, 20% price increase</td>
</tr>
<tr>
<td>machinery and transportation:</td>
<td>15% decrease in supply, 20% price increase</td>
</tr>
<tr>
<td>3. Capital sanctions:</td>
<td>alternately fully imposed and not imposed</td>
</tr>
<tr>
<td>(short term and long term lending to and investment in SA)</td>
<td></td>
</tr>
</tbody>
</table>

Four observations regarding the assumed effectiveness of the sets of sanctions set out in table 9.3 are in order before looking at the main results of the study. Firstly, three alternative trade sanctions scenarios are considered, namely one selective sanctions scenario with certain assumed degrees of global enforcement, and two comprehensive sanctions scenarios with an assumed moderate and stringent global enforcement, respectively. Secondly, the first mentioned scenario of selective trade sanctions is very similar to those specified in the CAAA, except that their effectiveness is assumed to be much higher because of their more universal enforcement. Thirdly, the assumed degree of stringency of global enforcement of the relevant trade sanctions is based on discussions by the US Investor Responsibility Research Center with US, European and South African officials and businessmen. Fourthly, there is a clear relationship between the assumptions regarding export sanctions and capital sanctions to the extent that intensive export sanctions may very well provoke South Africa to impose sanctions on foreign debt repayments and, therefore, act as an effective disincentive to further escalate export sanctions.

The results of the simulated scenarios show that the package of selective sanctions with wide global enforcement will only have a moderate impact at best. It is likely to lead to a 7 percent loss in exports in 1987, and a reduction in income of roughly 3.5 percent across the racial spectrum. Moreover, the impact can be expected to be somewhat regressive, but as sanctions become more comprehensive, the loss in income will also become more regressive, i.e. hurting blacks proportionately more than whites. Given the moderate political objectives of South Africa's major trading partners who are assumed to be applying these sanctions, this result suggests that the imposition of comprehensive sanctions could very well prove to be counterproductive.

41 "...the present impacts of components of the package surely are far less." "Clearly, if only the United States imposes (these) sanctions, the effect will be quite limited; there will be some trade restructuring and diversion, but the overall losses will be small" Becker and Khan (1990: 34). This confirms the conclusion drawn from tables 9.1 and 9.2.
Table 9.4: Impact on income of selective and comprehensive global sanctions against South Africa with no restrictions on capital repatriation

<table>
<thead>
<tr>
<th></th>
<th>Selective&lt;sup&gt;1)&lt;/sup&gt; 7 percent loss of export earnings</th>
<th>Comprehensive 10 percent loss of export earnings</th>
<th>Comprehensive 20 percent loss of export earnings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Blacks</td>
<td>-3.64</td>
<td>-6.19</td>
<td>-12.37</td>
</tr>
<tr>
<td>Asians</td>
<td>-3.40</td>
<td>-5.21</td>
<td>-10.43</td>
</tr>
<tr>
<td>Coloureds</td>
<td>-3.29</td>
<td>-4.87</td>
<td>-9.74</td>
</tr>
<tr>
<td>Whites</td>
<td>-3.50</td>
<td>-5.49</td>
<td>-10.97</td>
</tr>
</tbody>
</table>

1) Only on South African exports. The authors assume that the trade balance effect of import sanctions is theoretically ambiguous.


The impact outlined above in table 9.4 only analyses the gross impact of the sanctions in the sense that South Africa is assumed not to respond to the sanctions by spreading the impact even wider to make it more regressive, or take steps to counteract the original impact. As regards the latter, Becker and Khan are of the opinion, however, that the South African authorities may realistically respond to the imposition of at least comprehensive sanctions, if not before. The two main responses would be further import substitution and controls on capital outflows. Import substitution could reduce the negative income impact of comprehensive sanctions by 3.5 to 4 percent, and capital controls by a further ± 3 percent.

The results shown in table 9.5 suggest that the net effect on income of comprehensive sanctions (10 percent is considered to be feasible) would not exceed 2 percent on average if the two responses were initiated. What is of particular importance is that the net impact on income is even more regressive than the gross impact of selective sanctions, with whites losing 1.44 percent and blacks 2.5 percent of income. All these figures must of course be treated as orders of magnitude, and no more. Given the various "realistic" assumptions on which these calculations are based, as well as the

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<sup>42</sup> Becker and Khan (1990: 39) assume that capital sanctions in fact imply no restrictions on capital repatriation. Should the impact on the trade account be extremely negative, the likely response of the South African government could be the suspension of capital repatriation. This response would give a boost to the economy in the short term, equivalent to a temporary inflow of capital.
limitations of the techniques employed, it seems inescapable to conclude that whereas the short-term effects of an escalation of sanctions appear either moderate or could be largely neutralised in the case of South Africa, the longer term effects are much more uncertain.

Table 9.5: Responses to comprehensive sanctions (10 percent loss of TEE) through import substitution and capital controls

<table>
<thead>
<tr>
<th></th>
<th>Blacks</th>
<th>Asians</th>
<th>Coloureds</th>
<th>Whites</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total income loss</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Export sanctions</td>
<td>-6.19</td>
<td>-5.21</td>
<td>-4.87</td>
<td>-5.49</td>
</tr>
<tr>
<td>Permitted capital sanctions(^1)</td>
<td>-2.77</td>
<td>-3.42</td>
<td>-2.86</td>
<td>-3.62</td>
</tr>
<tr>
<td><strong>Total loss</strong></td>
<td>-8.96</td>
<td>-8.63</td>
<td>-7.73</td>
<td>-9.11</td>
</tr>
<tr>
<td><strong>Response</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Import substitution(^2)</td>
<td>+3.69</td>
<td>+4.40</td>
<td>+4.35</td>
<td>+4.05</td>
</tr>
<tr>
<td>Capital controls(^3)</td>
<td>+2.77</td>
<td>+3.42</td>
<td>+2.86</td>
<td>+3.62</td>
</tr>
<tr>
<td><strong>Net income loss</strong></td>
<td>-2.50</td>
<td>-0.81</td>
<td>-0.52</td>
<td>-1.44</td>
</tr>
</tbody>
</table>

1) Calculated as a reasonable impact of capital sanctions against South Africa, i.e. without excessive outflows that will force reneging on any capital repatriation.
2) Arrived at by subtracting figures indicating a general boycott (10 percent) with import substitution response (column 18, table 6 in Becker and Khan) from figures indicating a general boycott without import substitution (column 16).
3) Calculated by reversing the impact of capital outflows. Arrived at by subtracting figures indicating a general boycott with import substitution (column 18) from figures indicating a general boycott with import substitution and capital sanctions (column 19).


The study also briefly examines the expected impact on its neighbouring states of escalating sanctions against South Africa. Due to the high interdependence in the region, the impact would also have an effect on the neighbouring countries. The study looks at Botswana, Lesotho and Swaziland specifically. It concludes that Botswana would experience a "modest, but not negligible impact", while the latter two would be affected negatively, even with only the selective sanctions being imposed against South Africa (Becker and Khan 1990: 49).
The analysis outlined above provides an indication of what the impact of an escalation of sanctions reflected in different sanctions packages would most likely be. It is clear that the South African economy would be adversely affected by a set of selective sanctions enforced almost globally, but especially so in the case of comprehensive sanctions. The analysis also confirms that South Africa has an open economy but that it no longer has any Achilles heel on its import side.

Furthermore, the study finds that there is still considerable scope for further import substitution in order to make it even less dependent on imports. However, any sizable reduction in total export earnings would reduce South Africa's capacity to import considerably. This is because imports would not fall to the same extent as a reduction in export earnings with the result that a trade deficit would develop. If this could not be financed through the capital account, the impact on whites specifically would be significant. This could be neutralised, however, and even reversed if the South African government reneged on all or some of its foreign debt commitments by not allowing the further repatriation of foreign capital.

Another important aspect of this analysis is the suggestion that the impact of sanctions is slightly regressive but that as the sanctions become more comprehensive the impact could be expected to become even more regressive (Becker and Khan 1990: 44). This is in sharp contrast with the purpose of sanctions of focussing the impact of the sanctions mainly on whites instead.

Without any reference to the political objectives or consequences of escalating sanctions, this study shows firstly, that the actual impact of the 1985-87 trade sanctions was marginal at best and that the 'private' financial sanctions were more damaging. Secondly, both as far as the assumptions regarding enforcement and the estimated impact on income of much more severe sanctions are concerned, the conclusion is that South Africa is much less vulnerable to the use of sanctions than is generally appreciated. Indeed its foreign debt burden even provides another disincentive to escalate export sanctions against the country, at least in the short term. It remains to look at the impact of financial sanctions before relating the total economic outcome to the minimum adverse impact necessary to ensure a certain political objective.

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43 There appears to be a contradiction in the two Becker studies. In Becker and Pollard, South Africa was considered to have undertaken excessive import substitution to become self sufficient while Becker and Khan suggest that there are still ample opportunities for further import substitution.
9.6. The impact of financial sanctions

The other main component of the 1985-1987 wave of sanctions was the imposition of financial sanctions. These concentrated on ensuring that the capital account of the balance of payments could not compensate for any loss in export earnings, and should also become a further constraining factor. The capital account of the balance of payments reflects changes in both loans and direct foreign investments. The purpose was not only to reduce the flow of such funds to South Africa, but to encourage their outflow.

The partial debt standstill that had been declared in the second half of 1985 had led to such an outflow of funds from South Africa according to the rescheduled repayment agreements. Most of the financial sanctions imposed thereafter attempted to reinforce the repayments that had been negotiated by the international bankers, although there were also attempts to enhance them. The actual measures were designed to reduce any further access to funds which might assist in alleviating the already existing strain on the capital account. The financial sanctions concentrated primarily on the restrictions of new loans with varying limitations also on direct foreign investment.

9.6.1. Restrictions on foreign loans

The declaration of the partial debt standstill in 1985 was to a large extent South Africa’s desperate response to the international financial market’s downward rating of South Africa’s financial position at a time when international banks had already reversed their net lending to developing countries.\(^{44}\) The major international financial players had rapidly reviewed their opinion of South Africa’s creditworthiness and reassessed their exposure in the light of the changing political and economic developments within South Africa. As Becker and Khan point out,

"reluctance by the world’s financial markets to provide new loans to South Africa stems not from the bankers’ opposition to apartheid, but rather from their fears of the consequences of political instability, liquidity crises and hence a further depreciation of the rand. These forces, of course, are themselves significantly influenced by the imposition of other sanctions, resistance within South Africa and divestment campaigns in the West." (Becker and Khan 1990: 125).

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44 See chapter 6 for the build up to the third world debt crisis during the first half of the eighties, and the drying up of loan funds from foreign commercial banks after 1982.
South Africa was historically not highly dependent on foreign funds for growth. It had normally run deficits when the economy was growing rapidly which demanded higher imports without a simultaneous increase in export earnings. In times of recession, a surplus large enough to offset the previous deficits was generated. The build-up of foreign debt ending in 1985 was, however, out of line with previous foreign debt obligations and consequently, with the addition of political uncertainties, made foreign bankers nervous about rolling over their short-term loans. Although the signs of deteriorating political and economic conditions had been there for some time, the catalyst for the decision not to roll over any of the loans was the declaration of the state of emergency in June followed by the Rubicon speech in August 1985. This resulted in the declaration of a partial debt standstill followed by debt rescheduling arrangements.

The immediate result of the rescheduling was the forced repayment of South Africa’s foreign debt without the prospects of any new funds. Consequently, the repayment of the debt necessitated a continuous surplus on the current account of the balance of payments to finance the capital outflow. To realise this, the economy had to be contracted through the use of both strict fiscal and monetary policies, the latter being the more important measure used.

The partial standstill and rescheduling of the repayment of its foreign debt exposed South Africa’s newly acquired financial vulnerability, and invited further pressure on South Africa by demanding greater debt repayments than those agreed to in the rescheduling arrangements. The recognition of South Africa’s financial vulnerability gave the pro-sanctions groups an ideal opportunity to incorporate additional and formalised restrictions in subsequent sanctions legislation on the flow of new funds to South Africa. The market restrictions on international capital flows to South Africa coincided with the strategy of the sanctions groups. This strategy intended to reduce South Africa’s capacity to import by restricting the country’s export earnings, and to ensure that this constraint was not offset by foreign borrowing but rather enhanced by capital outflows.

45 The First Interim Debt Agreement was negotiated by Frits Leutwiler towards the end of February 1986, one of the terms being that South Africa had to repay up to 5 percent of the affected debt in quarterly installments over the next twelve months (Bethlehem 1988: 79). Also see Leape (1991a) for details of the Second and Third Interim Arrangements.
The motivation for these financial sanctions was to maintain the existing credit and capital market pressure that was being experienced due to the debt rescheduling, and to attempt to expand such pressure with formal measures. The financial sanctions imposed by most of the major industrialised countries were, however, of a voluntary rather than mandatory nature and focussed on restricting new government and bank loans to the South African government and its parastatals, and in some limited cases to the private sector. The USA was an important exception, in that even here provision was made for new direct investment in exceptional cases.

In viewing the impact of official financial sanctions, it is important not to confuse the impact of the debt rescheduling with financial sanctions. The former or market sanctions are likely to have occurred without official sanctions pressure, and as a result of normal commercial bank risk assessment including the prospect of maintaining political stability. The separation of the impact of the rescheduling from that of the financial sanctions was even acknowledged by the United Nations in a later report.

"Market sanctions do appear to have played a crucial role in constraining the South African economy. The various bans that have been adopted on investment and some forms of loans to South Africa have reinforced these market sanctions." (United Nations 1989: 33).

While it became increasingly clear that official financial sanctions as such had only a limited effect, there was general agreement that the market financial sanctions and particularly the forced rescheduling of foreign debt had a considerable negative impact on the economy of South Africa. After the first rescheduling, the pro-sanctions movements focussed their efforts on expanding market financial sanctions mainly by insisting that the creditor banks ask for even more stringent debt repayments in negotiating future rescheduling arrangements. The pro-sanctions groups felt that such measures would serve to exploit the so called "debt bulge" in South Africa's debt profile. If adopted, it would have meant that South Africa had to repay debt according to the

46 Lind (1990), Crawford-Browne (1989) also proposed such measures to the U.S. House of Representatives Sub-Committee on International Development, Finance, Trade and Monetary Policy of the Committee on Banking, Finance and Urban Affairs. The proposed "South African Financial Sanctions For Democracy Amendment Act of 1989" would have prohibited U.S. banks from making use of the exit clause under the interim debt arrangement, and provided for the outstanding debt to be repaid at the crippling high rate of 20 percent per annum in future (Newcomb 1990: 4).
previous arrangements together with a new prescribed set of more stringent measures. It was argued at the time that this would either have placed additional pressure on South Africa's negative capital account and require a further deepening of the domestic recession, or if South Africa could not meet the repayments it would again force a foreign debt crisis placing it firmly at the "mercy" of creditor banks which could then dictate political changes in the country.

Although there was considerable support at the time for increased financial pressure on South Africa, neither official nor voluntary measures were taken to introduce any such recommendations. The capacity of the creditor banks to dictate unreasonable arrangements was in fact severely limited. This was clearly pointed out by the U.S. Federal Treasury at the time when arguing against giving effect to these proposed more stringent measures. It stated that,

"if the South African Government were to reject the rescheduling mandate of the Bill, US banks could be forced either 1) to sell their South African debt on the secondary market or 2) to declare that South Africa was in default on its debts and take the appropriate legal action." (Newcomb 1990: 6).

It continued, however, to argue that both these options would in fact be very costly for US banks\(^{47}\), and possibly provide the South African government with an unintentional economic windfall. The first would require South African debt to be sold on the secondary market at a significant loss, while it was at the time only trading at a discount much smaller compared with that of other countries in similar positions. It would allow the South African government to repurchase its outstanding debt at a large discount and, thereby afford it significant relief\(^{48}\). Regarding the second option, the likelihood of confiscating South African assets abroad would be remote while the proceeds would in any case be far from sufficient to cover the outstanding amounts (Simone 1990: 4). In any case, the US banks had limited leverage as they held only 17 percent of the affected debt (Leape 1991a: 25). The creditor banks from other countries would most likely not

\(^{47}\) South African debt would be considered non-performing. This would have a direct impact on the balance sheets of the relevant banks. They would either have to write off the debt, or recapitalise sufficiently to accommodate the non-performing debt, both of which were unpleasant prospects compared with the existing arrangements.

\(^{48}\) Both the cost to U.S. banks and the benefits for South Africa of defaulting were endorsed by J.J. Simone, executive vice president of Manufacturers Hanover Trust Company. He estimated that South Africa's windfall would be roughly $3 billion in annual debt relief. (Simone 1990: 5).
subscribe to the same harsher measures. Finally, if the US banks were forced to increase pressure on South Africa they would run the risk of being sidelined in future negotiations as the repayment of non-U.S. debt might very well enjoy priority status under the circumstances. The capacity to impose additional hardships on the South African economy by intensifying financial sanctions without severe costs to the creditor banks was clearly limited, and could even prove counterproductive in practice.

It is clear in examining the impact of financial sanctions against South Africa that it is necessary to distinguish between market restrictions and official sanctions, with the former carrying more weight than the latter. Furthermore, there is little doubt that the "debt bulge" in South Africa's debt profile made it particularly vulnerable to outside pressure at the time. In fact, it was to be the source of the most important and lasting economic sacrifices the country had to endure. At the same time, however, it is also clear that South Africa's "debt bulge" served as a strong disincentive against the escalation of both export and financial sanctions after 1985-87.

As pointed out earlier when considering the contribution of Becker and Khan to the likely effect of escalating export sanctions, South Africa could very well feel justified in discontinuing any further debt repayments as its ability to earn the necessary foreign exchange for this purpose was being undermined. The end result could have amounted to major economic relief to South Africa and proven counterproductive at least in the near to medium term. It was also emphasised by the U.S. Federal Treasury (Newcomb 1989) for example, that by officially escalating the existing market financial sanctions against South Africa, the latter would most likely be forced to dishonour the existing private rescheduling arrangements to the benefit of South Africa and the detriment of the creditor banks, and particularly those in the United States.

Meanwhile, it was increasingly being agreed amongst the Western industrialised countries that the best course would be not to escalate sanctions against South Africa further, but to rely on diplomatic persuasion at a time when the South African economy was continuing to be depressed thanks mainly to the deflationary policies necessary to ensure a surplus on the country's current external account, and the lack of investor confidence in a climate of continued socio-political unrest and uncertainty. This approach was also in line with the more influential and far-sighted school of thought against the use of any savage sanctions which could only damage the South African economy in a post-apartheid era for years to come. Meanwhile, the South African
authorities were set on not damaging their credit-standing with world financial markets, by meeting their foreign debt obligations in an orderly and negotiated manner. When the country's political and economic prospects improved as the government's commitment to the abolition of apartheid was being realised, and the country's foreign debt burden was being diminished, it was hoped that any future economic recovery would be stronger and more lasting in the post-apartheid era than would otherwise be the case.

Since the partial debt standstill and the imposition of the financial sanctions, there had been a persistent annual net outflow of foreign funds in contrast to any previous experience\(^\text{49}\). Averaging at about 2 percent of South Africa's GDP, this outflow must be regarded as significant\(^\text{50}\) since it demanded a surplus on the current account of the balance of payments of at least the same magnitude by promoting exports and constraining imports. This experience was, however by no means out of line with that of other highly indebted middle income countries that also had to reschedule their foreign debt when their terms of trade deteriorated and interest payments escalated\(^\text{51}\). As was pointed out in chapter 6, South Africa was initially spared these shocks because of the temporary high gold price in the early 1980s. The difference was, however, that these other countries could not service the high interest payments of their much larger but longer dated debt, in contrast to South Africa's position of modest interest payments but inordinately high short-term maturities, i.e. high repayment obligations. Under these conditions it was most unlikely that South Africa would have succeeded in raising any new foreign funds, particularly not from the IMF, whereas many of the other countries managed to capitalise their interest obligations in the form of higher debt, and thereby obtained significant relief on their current external accounts.

\(^{49}\) Refer to chapters 6 and 7 for details in this regard.

\(^{50}\) A much publicised Trust Bank study at the time showed a cumulative foreign exchange loss of about R40 billion between 1985 and 1989 due to export sanctions and capital outflows, comprising a net capital outflow of R30 billion plus a loss in export earnings of R10 billion (van Wyk 1989: 3).

\(^{51}\) This results from an increase in the servicing of foreign debt due to the higher interest rates of the foreign currency denominated debt.
As South Africa’s foreign debt position improved (South Africa was one of few countries with balance of payments difficulties that managed not only to service its foreign debt but also to reduce the amounts outstanding to enjoy a healthy overall debt position by the end of the decade), the financial sanctions restricted the flow of funds and postponed any sustained recovery of the economy. This constraint was particularly visible in 1988 when the economic upswing had to be aborted due to a severe balance of payments constraint after the real GDP expanded at 4 percent. This implied that the South African economy could not sustain a growth rate of much higher than 2 to 3 percent while it improved its already modest foreign debt position according to the debt rescheduled repayments. A quantitative indication of the impact of official financial sanctions against South Africa will be given in section 9.6.3 after first discussing the impact of disinvestment for South Africa.

9.6.2. The impact of disinvestment

The call to disinvest from South Africa was clearly complementary to the efforts to intensify the market sanctions on loans to South Africa. The aim was to put pressure on countries not only to halt, but even to reverse the flow of foreign investment to South Africa. This would, under normal circumstances, also have resulted in a capital outflow with the effect of eroding foreign exchange reserves and further reducing South Africa’s capacity to import. Although disinvestment occurred, because of domestic pressure on multinational corporations as well as other economic considerations, it could not under the circumstances put additional pressure on the country’s reserves. The reason was that any such serious financial impact was cushioned by exchange control, particularly the financial rand mechanism. The financial rand system had been reintroduced in the latter part of 1985 in line with South Africa’s response to the partial debt standstill. The financial rand system which only applies to non-resident capital flows other than loan funds, rests on a self-clearing exchange rate mechanism with the result that the outflow of funds is not related to the level of foreign exchange reserves. The transfer of any sale

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52 Trade finance relieved some of the pressure at the time (Jenkins 1989).
of investments could only be affected by a non-resident purchase. This meant that the wave of disinvestment had no direct impact on the capital account of the balance of payments nor, on the level of reserves, as the withdrawal of any funds had to take place through the financial rand mechanism.53

It should also be pointed out, however, that most of the wave of disinvestment that took place was in any case not the result of official sanctions. Other than the Nordic countries which prohibited all direct investments in South Africa, Western industrialised countries including the U.S. only imposed either voluntary or mandatory restrictions on the flow of new investments to South Africa. They never insisted on existing direct ties being severed. However, due to political pressures at their home base, many multinational companies, particularly in the US, cut their direct ties54 with South Africa. Between 1984 and 1987, 156 US companies withdrew from South Africa, the bulk of which (145) did so immediately after 1985. When confronted for their reasons of withdrawal, most cited (1) decreasing business opportunities in South Africa, and (2) selective purchasing laws by state and local governments in the United States (GAO 1988a: 31).

The first reason confirms the rapid weakening of the South African economy since the early eighties as discussed in chapters 6 and 7. When viewed against the prospect of depressed growth after a drastic depreciation of the currency together with the reintroduction of the financial rand, on the one hand, and growing political unrest, uncertainty and the possibility of further sanctions, on the other, there was very little reason to expect acceptable yields55, and to retain capital in the country.

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53 The financial rand rate is more volatile than the commercial rand rate, and trades at a discount. This discount is sometimes taken as a barometer of foreign confidence in the political and economic prospects in South Africa.

54 There were five main ways of withdrawal that were available to the companies. These were 1) closing down the operation, 2) selling the company to local management, 3) selling the company to a South African company, 4) selling the company to a non South African company, and 5) transferring the company's assets to a trust fund (GAO 1988a: 31).

55 This trend had already started earlier as returns on investments declined from a 31 percent after tax in 1980 to 7 percent in 1982 and 1983 (Love 1988: 103).
The second reason for disinvesting takes the additional political cost of continuing to do business with South Africa into account. Not only did the additional cost of new foreign investment codes also discourage United States foreign investment in South Africa, but the time of top executives, particularly in the United States, was increasingly being taken up to defend and react to their companies' association with South Africa, the so-called "hassle factor". Furthermore, the relevant companies were also increasingly being denied access to tender for lucrative state and local government contracts in the US. When the continuous association with South Africa threatened to cost far more than any benefits that could possibly originate from South Africa, it was a simple business decision to withdraw.

As pointed out earlier, the direct impact of disinvestment was negligible in terms of further constraining the South African economy at the time, as it could not place additional pressure on the capital account of the balance of payments, or affect the level of foreign exchange reserves. However, the longer term consequences of disinvestment such as reduced access to and transfer of modern technology, managerial skills, special training and development initiatives were real losses but very difficult to quantify.

9.6.3. The reduction in South Africa's growth potential due to financial sanctions

The persistent outflow of capital from South Africa since 1985 severely constrained the economy because it reduced the stock of capital available to expand productive capacity. As was pointed out in chapter 3, capital is a stock concept and the reduction in such levels has long-lasting effects on growth. However, as has been emphasised earlier in this chapter, a large proportion of the outflow was the result of market sanctions. When analysing the impact of capital outflows a distinction must be made between such withdrawals and politically inspired outflows of capital, however difficult it may be to make this distinction.

56 George Moose Secretary of State for African Affairs in the Clinton Administration confirmed this view after the lifting of sanctions when he pointed out that "the Clinton administration was strongly opposed to codes of conduct for US businesses in South Africa because they would only discourage investment" (Business Day 1994).
The study by Botes (1992) has attempted to do this by isolating the impact of the "market sanctions" from the overall outflow of capital. This was done by accounting for all those factors that could reasonably be said to have influenced South Africa's capital flows irrespective of sanctions. These factors included the following:

- The position of the business cycle, taking into consideration the utilisation of production capacity in the economy.
- The difference between local and foreign interest rates.
- Changes in the availability of loans and investment funds on international capital markets for developing countries.
- Changes in South Africa's general credit rating.
- The negative impact of the domestic political climate (Botes 1992: 193-194).

By calculating what the impact on capital flows of these variables on their own would have been and contrasting the findings against the actual net outflow, a residual was arrived at as an indication of the order of magnitude of the impact of official financial sanctions, together with other less important variables. The latter would suggest that the estimate could be on the high rather than low side.

Table 9.6: The average outflow of funds due to sanctions, 1986-1989

<table>
<thead>
<tr>
<th>Year</th>
<th>Net capital flow from abroad with sanctions (R million)</th>
<th>Alternative estimated series of net capital flows without sanctions (R million)</th>
<th>Net effect of sanctions (+ equals outflow) (R million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1985</td>
<td>-7160</td>
<td>-7160</td>
<td>-</td>
</tr>
<tr>
<td>1986</td>
<td>-8380</td>
<td>-6198</td>
<td>2182</td>
</tr>
<tr>
<td>1987</td>
<td>-4236</td>
<td>-4426</td>
<td>-190</td>
</tr>
<tr>
<td>1988</td>
<td>-4621</td>
<td>-1436</td>
<td>3185</td>
</tr>
<tr>
<td>1989</td>
<td>-2707</td>
<td>-2413</td>
<td>294</td>
</tr>
<tr>
<td></td>
<td>Average outflow (1986-1989)</td>
<td></td>
<td>1368</td>
</tr>
</tbody>
</table>

The result according to table 9.6 was that the outflow of funds due to official sanctions was on average about R1400 million per annum between 1986 and 1989. The greatest impact was felt in 1988, a year in which the economic upswing had to be depressed mainly due to a severe balance of payments constraint. The negative impact on the country's economic growth potential for the same period is shown in table 9.7. It can be seen that the impact of official financial sanctions is estimated to have been a reduction in the growth potential of the economy of roughly 0.3 percent (2.28 minus 1.97). Because the outflow reduced the capital stock of the country, the impact must be viewed as a permanent loss.

Table 9.7: Potential GDP growth with and without financial sanctions, 1986-1989

<table>
<thead>
<tr>
<th>Year</th>
<th>Potential GDP growth</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>with sanctions</td>
<td>without sanctions</td>
<td></td>
</tr>
<tr>
<td>1986</td>
<td>0.15</td>
<td>0.33</td>
<td></td>
</tr>
<tr>
<td>1987</td>
<td>2.38</td>
<td>2.30</td>
<td></td>
</tr>
<tr>
<td>1988</td>
<td>2.94</td>
<td>4.04</td>
<td></td>
</tr>
<tr>
<td>1989</td>
<td>2.40</td>
<td>2.46</td>
<td></td>
</tr>
<tr>
<td>Average growth (1986-1989)</td>
<td>1.97</td>
<td>2.28</td>
<td></td>
</tr>
</tbody>
</table>


The estimated 0.3 percent ascribed to financial sanctions accounts for 10 percent of the difference between the actual average growth rate of just more than 1 percent and South Africa's normal growth potential of just more than 4 percent. The growth potential was already depressed in the early eighties due to factors such as the systematic dissaving by the central government, the structural lower return on capital, distortions in the tax system, the outflow of funds due to market related reasons as well as political unrest and uncertainty (Botes 1992: 199).
9.7. The required impact of sanctions to be politically effective

As pointed out in chapter 2, what counts in the final analysis is not so much the actual or likely economic impact, but achieving the political objectives. If sanctions are not simply intended to be symbolic gestures or signals of disapproval, they are intended to have some adverse impact on the economy of the target country in order to achieve certain foreign policy objectives. It is very difficult, if not impossible, to determine with any precision the extent of economic damage needed for particular sanctions to be politically effective. However, the theoretical outline given in chapter 2 suggests that the scope of sanctions required usually depends on the seriousness with which the sender country or countries consider the target country's unacceptable behaviour. The extent of the sanctions measures chosen will depend on whether the sender parties believe that the target country has to undertake a major or a minor policy change in order to reverse their decision to impose sanctions. Generally, the greater the policy adjustment required, the greater the economic impact of sanctions needs to be in order to achieve the political objectives.

In the case of South Africa, because of clear differences in the perception amongst the anti-apartheid parties as to the extent and nature of the apartheid problem, the minimum adverse economic impact required from the use of sanctions to achieve the desired political changes naturally varied. Since no such minimum intermediary economic target for sanctions was ever specified by leading Western industrialised countries, and their sanctions measures were very limited in scope and highly selective in nature, it can be concluded that no major economic damage was ever intended. The measures and their intention belonged to the category that could best be described as signal rather than savage sanctions. In contrast, a study for the Commonwealth Expert Group (CEG) was quite prepared to suggest a threshold of discomfort that the economic impact of sanctions would have to reach before their particular political objectives could be expected to be realised.
The CEG (1989: 91) study suggested that a reduction in South Africa's export earnings of 25 percent would reduce imports by about 30 percent. This reduction in imports would be large enough to quickly reduce the capacity of the economy to grow, thereby generating the required level of "real discomfort" amongst supporters of apartheid. This reduction in foreign trade, it was proposed, would "produce a GDP fall sufficient to trigger an appropriate political response" (Commonwealth 1989: 90).

This magnitude of the "discomfort threshold" required, corresponds closely to that suggested by the Porter model (Porter 1979) where, given the composition of South Africa's imports as well as the structure of the South African economy, South Africa could absorb a reduction of up to 25 percent in its export earnings before suffering any severe repercussions. A reduction in export earnings of between 0 and 25 percent would have a limited effect on the ability of the South African economy to grow. As a response to sanctions measures up to this level, imports could be prioritised to match reduced foreign exchange earnings without much sacrifice, i.e. consumer goods' imports could be reduced without affecting intermediate and capital goods imports necessary for sustained growth to any considerable extent. Indeed, even further import substitution was still possible without much sacrifice. However, once the loss in export earnings was greater than 25 percent, the ability of the economy to perform decreased rapidly while the scope for further import substitution faded (Porter 1979: 612).

The Becker and Khan analysis of the impact of a possible escalation of sanctions suggests that if sanctions were escalated to a feasible maximum (10 percent loss of export earnings) or even unrealistically high (20 percent loss of export earnings) level, the impact in terms of lost income after allowing for further substitution but not for a ban on capital repatriation, would be almost 6-8 percent and 14-17 percent, respectively under the two scenarios. The impact would, however, be reduced by about 3

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57 Because of the size of the invisibles deficit, the value of imports is equivalent to two-thirds of exports. This implies that a 25 percent cut in purchases from South Africa would force South Africa to cut its foreign purchases by 30 percent (Commonwealth 1989: 91).

58 The Porter study (1979) suggests that with a reduction of between 0 and 25 percent, each percentage cut in exports reduces GDP growth by half a percentage point. Above 25 percent, each percentage point reduction in export earnings reduces growth by one and a quarter percentage points. This study does not take other possible countermeasures besides import substitution into account. The study also shows that the adverse effect on employment will be greater for black workers than for whites.

59 Refer to columns 20 and 20A in table 6 of Becker and Khan (1990: 46 and 47).
percentage points if a response of non capital repatriation is also allowed for. What is important for present purposes is to realise firstly, that the net decline in incomes envisaged by the CEG study (as a result of a 25 percent export loss) to achieve the desired political aim would be much higher, say a loss in income in the region of a 20 percent plus. Secondly, this compares with an estimated negative impact (including export and financial sanctions) actually experienced from the 1985-87 selective sanctions of only a fraction of one percentage point. Therefore, in terms of linking the economic impact of the 1985-87 sanctions to the particular political goal it would appear that the actual impact fell far short of what was perceived to be necessary. Furthermore, although the loss in income from comprehensive sanctions (10 or 20 percent loss of export earnings) could be expected to be much higher (3-5 percent and 11-14 percent respectively), when these losses are compared with the "desired" impact of a loss of income of more than 20 percent, they still prove to be considerably less than that regarded as necessary.

This chapter provided an assessment of the order of magnitude of the economic impact of the sanctions that were imposed against South Africa in the mid-eighties. It is clear from the analyses that some industries were affected by the measures. However, if viewed in its entirety and over time the economic impact of export sanctions was negligible, or at best marginal. This result was to be expected given the limited scope and selective nature of the sanctions measures described in chapter 8. Moreover, the sanctions were not escalated even though this was part of the U.S.'s declared strategy and there was, in fact, increasing pressure for it to do so. Although the export trade sanctions resulted in limited costs with the effect neutralised and even reversed within less than two years, the official capital sanctions were responsible for a marginal reduction (0.3 of a percentage point) in South Africa's growth potential. Both these results fell far short not only of what was estimated as the maximum feasible impact of comprehensive sanctions against South Africa, but also of what was perceived as necessary to cause a level of discomfort sufficient to attain the desired political objectives of abolishing apartheid and transferring power to a black majority government with little, if any qualification.

At the same time, the analysis also suggests that, unless the political objectives of the industrialised countries rapidly changed because of new unacceptable behaviour, e.g. the South African government reversed its intended reform programme, or escalated its regional destabilisation, the 1985-87 sanctions were unlikely to escalate because there
were clearly built-in limits to escalation. Firstly, the imposition of further sanctions could be expected to be counterproductive due to their regressive impact on the black majority who was already suffering severe hardship from the prolonged recessionary conditions. To depress the economy further could make the country ungovernable and harden political attitudes to change. Secondly, further escalation could prove very costly to the sender nations while it was doubtful whether these costs were in any case necessary or justified in order to attain the relevant political objectives, i.e. a negotiated settlement between the major internal parties. If South Africa was pushed too far with sanctions, either in its ability to earn foreign exchange to repay its foreign debt or by making such repayments more stringent, South Africa could be forced to renege on its debt commitments. This would greatly neutralise the effect of sanctions by providing South Africa with a bonus that could tide it over economically for some time. Finally, the indirect costs of increased monitoring and administration, as well as that of imposing sanctions on third countries that continued to interact with South Africa, would definitely escalate without it becoming clear whether the political benefits derived from such a course of action would be achieved sooner, if at all. It would have been both more desirable and sensible if the political aims could be realised by peaceful negotiations between the two opposing parties in South Africa itself.
CHAPTER 10

DIVERGENT AIMS AND SUBSEQUENT DEVELOPMENTS

10.1. Introduction

As outlined in chapter 2, the prime reason for imposing sanctions against a country is ultimately to attain a certain desired foreign policy objective. In order to evaluate the effectiveness of such economic sanctions it is accordingly necessary to determine whether the relevant political objective had been achieved as a result of the former. According to the simplistic theory underlying sanctions it can be expected that if the economic impact is severe, the chances are greater that the political objectives will be attained and conversely, if the economic impact is marginal the chances are that the political objectives may not be achieved. This can be true in general but there are important experiences, i.e. the imposition of United Nations' sanctions against Iraq for its invasion of Kuwait, where the political objectives were not met although the economic impact of sanctions was significant, and alternatively, where the political objectives were met without sanctions having had any serious economic impact. Such experiences may prove to be exceptions to the rule, but they may also be more relevant in practice where contributing factors other than sanctions often do not remain unchanged, and where propaganda warfare cannot be ignored.

When the exceptions cannot readily be explained in terms of the general simplistic theory of the political economy of sanctions, there are also likely to be different interpretations as to both the size of the economic impact of sanctions and its relationship to the political change, if any. The interpretation may of course be skewed and the impact misinterpreted either due to inappropriate economic analysis\(^1\), or to the deliberate manipulation of the results for purely political purposes. The latter confirms the use of propaganda, identified in chapter 4, where all the economic setbacks experienced by South Africa were ascribed to sanctions. It remains the domain of the

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1 Some of the interpretations by, for example, the CEG (1990) and van Wyk (1989) suggested a strong correlation between the imposition of sanctions and the weak economic performance of the South African economy at the time. Such perceptions conveniently ignore the more important structural problems that the economy had to deal with, and are likely to continue even after the lifting of sanctions.
political scientist to identify and explain the role of other political developments during the sanctions period that may have been equally, or even more important in achieving the relevant foreign policy objectives pursued with the aid of sanctions. The economist can, however, even here make a contribution by pointing out that where the economic impact of a particular sanctions episode is small but the political changes dramatic, the main reasons for the latter may, as explained in general in chapter 2, indeed be found not only in the very nature of the political objectives sought, but also in extraneous political developments not directly related to the relevant sanctions. The economic impact of South Africa's 1985-1987 sanctions was analysed in chapter 9, while the nature of the more particular political aims pursued as well other determining developments experienced at the time will be discussed in the present chapter.

10.2. Identifying divergent political objectives

South Africa had for many years been on the foreign policy agendas of many countries, groups and institutions to a greater or lesser extent due to their disapproval of the country's peculiar domestic political policy of apartheid. The fact that the system of governance was considered to be unacceptable by the outside world generally, and more particularly also by the disenfranchised within the greater South Africa, gave growing momentum to a movement to abolish the system. It is here, however, where very divergent political objectives in the anti-apartheid movement arose. Although all were in agreement that the system of apartheid had to be discontinued, there were significant differences regarding the way this was to be achieved, and also as to what was to replace the system. These differences strongly influenced the political objectives of the various political forces against apartheid with regard to sanctions. Any evaluation of the effectiveness of sanctions must distinguish between these divergent political objectives of sanctions. In this regard it is useful to begin by distinguishing between those who advocated maximum economic damage in the shortest possible time, known as savage sanctions, in contrast to those who supported sanctions mainly to send a message to expedite the process of political reform away from apartheid but without any major damage to the economy, known as signal sanctions. The importance of this distinction was already raised towards the end of chapter 3 and also chapter 7.
10.2.1. The transfer of power by using savage sanctions

The call for sanctions originated from opposition groups without the franchise within South Africa who felt that the political dispensation of apartheid was unfair and oppressive, and that it had to be changed sooner rather than later. These groups were involved in a political struggle with the South African government over several generations. Initially they were peaceful organisations, but later resorted to an armed struggle. Their call for sanctions was primarily to supplement the armed struggle by weakening the South African economy to such an extent that the apartheid government could no longer defend itself effectively against the liberation movements. The aim was absolute, namely, to transfer political power from the ruling white minority to the black majority, if need be at the expense of the economy. Accordingly they called for savage sanctions to do maximum economic damage so that the political struggle could be won in as short a period as possible. These liberation groups were primarily supported internationally in their approach to savage sanctions by governments and organisations with a similar ideological stance of revolutionary political change, even at great economic cost to the South African economy. As most of these sympathising countries had few, if any, economic links with South Africa, their major role was to internationalise the South African issue on behalf of the liberation movements. This was done firstly, by other African countries who had gained their independence from discriminatory colonial powers and, secondly, by international organisations where these mostly newly independent nations had gained limited influence, and finally, through non-governmental organisations both in the third world but more importantly in the first world, e.g. churches, universities, women's and youth organisations.

2 Oliver Tambo, President of the ANC at the time stated that "Sanctions could not be expected in themselves to bring down the apartheid system. They were not an alternative to struggle but an important complement to it." (United Nations 1981:14)

3 Elizabeth Schmidt in writing for the United Nations summed the objectives of the savage sanctions proponents up as follows: "No one who has seriously considered the question argues that sanctions alone will bring about the destruction of apartheid. Rather sanctions are regarded as a means of weakening the South African economy, thereby rendering the system more vulnerable from within. Faced with a rapidly disintegrating economy, South Africa will be less able to finance a war against its own people, as well against Namibia, and the neighbouring states. Ultimately the combined pressures of the internal political struggle and the constraints of economic sanctions will force Pretoria to negotiate a transfer of power from the minority to the majority." (Schmidt 1988: 23). Also see Hanlon and Ormond (1987) and Orkin (1989) in this regard.
At the time of the imposition of the 1985-1987 sanctions it remained the objective of almost all the organisations mentioned above to impose the most severe sanctions possible against South Africa in order to ensure the most rapid transfer of power to its black majority as represented by the anti-apartheid groups within South Africa, and who had originally called for sanctions. So although there was an objective to remove apartheid from South Africa forcefully, they also envisaged absolute political control by the majority over the commanding heights of the economy, despite the fact that these may have been damaged by severe sanctions. Sanctions were also expected to achieve a revolutionary economy characterised by nationalisation. Even when all apartheid legislation was removed and irreversible constitutional changes were under way, sanctions were still called for by these groups to strengthen the hand of the liberation movements during the subsequent process of negotiating a new political dispensation. Accordingly sanctions were not only promoted to remove apartheid, but also to dictate the outcome of the post-apartheid era by supporting the liberation movements at all costs in establishing their new politico-economic dispensation for South Africa.

It is also relevant to note that the political objectives of these groups did not change over time, even though the political situation in South Africa had meanwhile changed substantially since sanctions had first been called for and escalated in the mid-eighties. They had refused to take into account any of the changes, as they were considered irrelevant in terms of their broader and absolute objectives for South Africa. This indicated a fairly hard line position, which was strongly influenced by their ideological beliefs of revolutionary socialism bordering on communism. They could not accept any other outcome than the one that had been called for by the liberation movements, namely the total transfer of political power to establish a planned economy characterised by nationalised industries. Only when this aim was achieved could the call for the escalation of sanctions be reversed, not before.

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4 For example, Hanlon, a staunch supporter of savage sanctions, stated that "clearly, sanctions have not achieved their overriding political goal - a transfer of power." (Hanlon 1990: 89).
10.2.2. Using signal sanctions to speed up the reform process to a point where peaceful negotiations could be entered into

As was shown in chapter 5, particularly after World War II, the international community was moving away from domestic policies that promoted or even condoned racial discrimination, which was the cornerstone of apartheid. It was only a matter of time before international disapproval would develop into growing conflict regarding South Africa’s domestic policy of apartheid. By the early eighties, however, when the issue of apartheid had been internationalised in the sense that it had become an important foreign policy issue in the major industrialised countries, the domestic situation in South Africa itself was very different to that which had prevailed during the earlier sixties when sanctions were first called for. As noted in chapter 5, the process of change in South Africa of moving away from apartheid had already started in the early seventies. The pace at which policy changed as well as the kind of changes, however, continued to allow for important disagreement among many of the major political players on the South African scene. The result was that the reform process was continued primarily at the rate at which the government was willing, and to a certain extent able, to accommodate adjustments in its constituencies. It meant that although the government was moving away from apartheid, it was dictating unilaterally the pace and type of reform that had to be accepted by the other political players. However, even this reform was halted by the South African government when the unrest broke out again during the middle eighties, and became both continuous and widespread. After the escalation of sanctions the government seemed to have taken the unrest and new sanctions in the wake of its political reforms as a slap in its face. It did not feel that any further reforms would stop the unrest but might even cause its escalation. As a result, priority was given to deal with the unrest situation as quickly as possible instead.

There was a growing concern among many otherwise friendly foreign countries at the time that the reform process in South Africa was taking too long, and that it should definitely not be halted under the circumstances. They felt that the lack of progress in reform was exacerbating the unrest situation. These countries wanted to show South Africa that the way out of its predicament was to move faster with reforms in order to make progress away from apartheid much more visible. This would also require meeting the leading liberation movements within and outside South Africa, and participating openly in discussion with them, without which a lasting solution would not be possible.
Meanwhile the major industrialised countries remained opposed to the use of sanctions, particularly savage sanctions, because they felt that any such severe penalties could prove counterproductive both in achieving the abolition of apartheid and developing a viable economy in the post-apartheid era. The limited sanctions that were imposed during 1985-1987 were, however, designed to impress upon the South African government the need to speed up its reform process, and also to remind them that any movement back to apartheid could never be justified. It would rather trigger a further escalation of sanctions. This economically influential group, in contrast to other politically more powerful but economically much less influential groups who insisted on savage sanctions, felt that as long as there was a concerted movement away from apartheid there was no need to apply any severe sanctions which could only hurt the South African economy, and further deprive the majority of its inhabitants on whose behalf sanctions were being propagated in the first place. At the same time, however, this influential group of countries was set against the use of sanctions to influence the negotiations themselves.

Having outlined the divergent political aims of sanctions against South Africa, it is now possible to briefly look at certain other developments, both external and local, which followed the imposition of sanctions at the time, in order to ascertain, together with the given economic impact of sanctions outlined in chapter 9, whether the former developments could also be said to have contributed to the realisation of the relevant political objectives of sanctions.

10.3. Two important foreign developments after the imposition of sanctions

Here it is necessary to draw attention to the political consequences of two foreign developments, the one regional and the other global, that had an important impact on the course of the sanctions campaign against South Africa, as well as on the outcome of local political developments subsequent to the imposition of the 1985-1987 sanctions. The two foreign developments were the economic collapse of most of sub-Saharan Africa, on the one hand, and also that of the Soviet Union and its empire, on the other. They occurred almost simultaneously during the second part of the eighties. The second led to the ending of the Cold War, while the first marginalised Africa as a political force in international politics.
10.3.1. The end of the Cold War and the withdrawal of the total onslaught

Although it had long been predicted, the Soviet Union's economic system only collapsed during the latter years of the eighties and in dramatic form. By 1989, it openly declared that it could no longer support its vast empire nor ensure the living standards of its population. Within one year, the previous satellite countries regained their autonomy. The Berlin Wall fell and the German Democratic Republic became part of the Federal Republic of Germany. All this occurred within a very short period and focussed Western foreign political and economic interests away from other trouble spots to Eastern Europe and the former Soviet Union. It also had important implications for the future political and economic union of Western Europe that was very high on the post-World War II agenda of Western foreign policy as part of the Cold War.

In the Soviet Union attention was almost immediately concentrated on domestic issues. Basic foodstuffs were in short supply, due to continuing poor agricultural conditions. There were increasing calls to the leading Western countries for foreign assistance to the ailing economy of their largest communist rival. The Soviet Union was no longer the other superpower. It marked the sudden demise of communism as practiced by the Soviet Union and its satellites with far-reaching shifts in international power balances as well as for the so-called neutral or non-aligned third world countries, including sub-Saharan Africa and most of the remaining liberation movements.

It also had important implications for South Africa's political struggle. Firstly, fear of the total communist onslaught that was exploited by the government of the day in order to rally support against the anti-apartheid organisations within South Africa and what they stood for, had suddenly lost much of its credibility. At the same time, the collapse of the Soviet Union meant that those whom the government until then had perceived to be enemies of the state (the South African liberation movements) could no longer rely on the ideological and material support to pursue their local objectives from this important source. The capacity of the liberation movements to continue with their military ventures could only be expected to decline, while its aim of a total surrender of South

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5 The Soviet Union eventually broke up into a looser association under the Commonwealth of Independent States with greater autonomy.
Africa in favour of a state-run economic system would have to be moderated in the light of the new international environment of discredited communist models of governance in favour of Western democratic and market driven systems. The local anti-apartheid liberation movements faced the prospect of losing support both locally and in the rest of the Western world for adopting extreme political positions instead of sharing power, and for threatening strong socialist solutions for South Africa's post-apartheid future instead of standing for market friendly economic arrangements. Although South Africa's strategic and commercial importance had become less significant for the major industrialised nations over the years, it was still able to enjoy some protection and even support but only as an anti-communist democracy and engine of economic growth in Africa.

With the collapse of the Soviet Union and the increasing pressure to apply western style democracy to African states, Western support for South Africa's extreme anti-apartheid political parties with strong communist alliances could be expected to diminish, except if they were prepared to enter into a peaceful negotiated democratic political solution to resolve the local political conflict, and also ensure a viable market economy in the post-apartheid era. All these unexpected considerations were to contribute significantly towards discouraging any policy of further escalating sanctions, and encouraging the various parties to settle for a new negotiated constitutional dispensation and to revive its depressed economy as soon as possible instead.

10.3.2. Sub-Saharan economic crisis

The other important political development that came to play an important role in resolving South Africa's political conflict without further sanctions, was directly related to the rapid and persistent economic decline of large numbers of African countries that became independent with high hopes during the late fifties and early sixties. The political consequence was that since most of these states were faced with prospects of becoming dependent for decades on economic aid and other outside concessions to survive, they could also be expected to become marginalised in matters of world politics.
The World Bank highlighted Africa’s growing economic crisis and the real possibility of a nightmare scenario in a pioneering "long term perspective study" that was published in 1989. The Bank warned that Africa's severe economic crisis must realistically be expected to deepen before lasting improvements could be achieved. Meanwhile,

"Africa is in danger of being increasingly marginalised in its participation in both the world economy ... and in global strategic decision making as superpower competition in Africa ebbs. For Africa to become isolated from the mainstream of global developments would be disastrous (World Bank 1989: 37).

The World Bank emphasised that there should be no illusions about the future road to recovery, and that the

"journey will be long and difficult, and special measures are needed to alleviate poverty and to protect the vulnerable" (World Bank 1989: xi).

One of the strategies proposed by the Bank in order to revive economic growth on a sustained basis in the region was to embark on a "renewed effort to promote regional integration and co-operation" which would involve a whole range of initiatives. What is of particular relevance here is the important reference to South Africa’s future in this regard, namely that "it is reasonable to assume that solutions will be found to the problems that have divided the peoples of that region and that South African economic cooperation will eventually transform the prospects for the whole of southern Africa" (World Bank 1989: 61). An economically viable and politically legitimate future South Africa (after sanctions) was seen as an ideal engine of growth for the whole of the southern African region, if not beyond.

A new South Africa crippled economically by sanctions could hardly have been expected to play a leading role of stabilisation and upliftment in a politically unstable and economically depressed region. Even more important was the extraordinary dependence of the region on South Africa, or the economic dominance of the latter. A South African

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6 1. An incremental but comprehensive approach.
2. Regional transport, communications and services.
3. Education training and research: regional capacity building.
4. Natural resource management.
5. An enabling environment for trade competition and factor mobility.
economy damaged by sanctions could only have added to the plight of the region. Table 10.1 indicates that whereas South Africa's land area was only 5 percent of that of the region and its population only 15 percent, its income per capita was nearly four times the average for the region while its share of foreign trade and economic infrastructure accounted for more than half the total for the region as a whole. It is clear, however, that given South Africa's dominant regional position but with a legitimate democratic government and an undamaged economy, it could be an important part of the solution in that part of the world, rather than part of the problem as a destabilising agent.

Table 10.1: South Africa's dominance in sub-equatorial Africa (key indicators)

<table>
<thead>
<tr>
<th>Indicators 1991 or 1992</th>
<th>South Africa</th>
<th>Total sub-equatorial Africa</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total</td>
<td>Percent1)</td>
</tr>
<tr>
<td>Population ('000)</td>
<td>39763</td>
<td>15.0</td>
</tr>
<tr>
<td>Area (km²)</td>
<td>1220088</td>
<td>5.0</td>
</tr>
<tr>
<td>GNP US$ million</td>
<td>106019</td>
<td>62.0</td>
</tr>
<tr>
<td>GNP per capita US$</td>
<td>2670</td>
<td></td>
</tr>
<tr>
<td>Imports (cif) US$</td>
<td>17503</td>
<td>52.4</td>
</tr>
<tr>
<td>Exports (fob) US$</td>
<td>24164</td>
<td>60.3</td>
</tr>
<tr>
<td>Electricity installed capacity (MW)</td>
<td>36228</td>
<td>72.5</td>
</tr>
<tr>
<td>Output (kWh)</td>
<td>148761</td>
<td>80.0</td>
</tr>
<tr>
<td>Ports tonnage handled</td>
<td>111150</td>
<td>94.2</td>
</tr>
<tr>
<td>Railways distance (km)</td>
<td>21300</td>
<td>53.0</td>
</tr>
<tr>
<td>Paved roads (km)</td>
<td>58000</td>
<td>55.1</td>
</tr>
<tr>
<td>Motor vehicles ('000)</td>
<td>5100</td>
<td>73.6</td>
</tr>
</tbody>
</table>

1) South Africa as percentage of sub-equatorial Africa.
2) Apart from South Africa, this region is made up by 21 countries including the Frontline states, Kenya, Uganda, Tanzania.

Source: Africa Institute (1994: 3-51), various tables.

Also see Butts and Thomas (1986) to show South Africa's importance in economic as well as political matters.

Martin (1988) ascribes many of the poor socio-economic conditions in the Frontline states to South Africa's destabilisation.
10.4. Domestic political developments after the 1985-1987 sanctions

The state of emergency announced in South Africa in 1985 had brought a swift end to any efforts to achieve constitutional reform as the government focussed its attention on dealing with the growing unrest situation. The wave of new sanctions was imposed soon after the state of emergency was declared. What followed can be divided into two periods, namely, developments under PW Botha (pre-September 1989), and developments under FW De Klerk (post September 1989).

10.4.1. Developments under PW Botha

The initial response of the government to the new 1985-87 sanctions was one of defiance and anger. The government was defiant at first, threatening to counteract the sanctions with sanctions of its own and even intimating that it might renege on its foreign debt. The South African government was also disappointed that the Western governments were not appreciative of the need to deal with the growing unrest as quickly as possible. Furthermore, the government resented the foreign governments’ intervention in an already difficult situation and their lack of credit for the reform measures that had already been taken. The new sanctions were, however, not to stop the government from dealing with the unrest position by restoring law and order under the state of emergency. This defiant attitude was soon replaced, however, with that of keeping a low profile instead, in order not to antagonise friendly governments further especially since these countries did not want to impose new sanctions in the first place.

There also seemed to be a hardening of attitudes generally amongst whites, the target group that had to be convinced that further constitutional change was necessary in South Africa to enable the lifting of sanctions eventually. This was reflected in the general election (whites only) in 1987 which showed a shift to the right. The Conservative Party had gained more than 30 percent of the popular vote and had also become the official

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9 This was done by ceasing the policy of destabilisation of neighbouring countries and not retaliating to the sanctions measures with counter-sanctions.

10 For a detailed perspective on whites' political attitudes to sanctions see Hofmeyer (1990).
opposition in the House of Assembly\textsuperscript{11}, while the Progressive Federal Party (PFP) reduced its support base. The reform oriented groups had lost support to the conservative groups, and this shift reflected increasing polarisation within the white community.

The increased polarisation in the white community was a response to the growing polarisation within the country as a whole. The unrest remained at high levels after the 1985-1987 sanctions, but with a gradual movement away from direct confrontation. The clashes with the police in the townships were being replaced by growing mass mobilisation in more common areas such as the work place and shopping areas, particularly in the urban areas. The Mass Democratic Movement, United Democratic Front and Cosatu\textsuperscript{12} were important organising agents in this new process of protest. These organisations effectively used strike action, mass stayaways, boycotts of businesses and mass protests to convey their disapproval of the handling of the unrest situation, and with the slow pace and poor concessions of the reforms introduced by the government\textsuperscript{13}. The disruptive effects of these continuous protest actions were starting to affect white communities adversely, particularly the business community. As a result, there were increasing calls within the white community to accelerate reform in order to defuse the claims of the mass movements, whereas the more conservative elements in the white community felt that these protesting organisations should not be allowed to continue with their disruptive actions but should be dealt with severely.

Although some of the activities of these internal anti-apartheid organisations were restricted, the government could not stop the momentum for reform which they had generated. It became increasingly clear that there could be no lasting political dispensation without the participation of these dissatisfied internal groups as well as the yet unbanned groups that were closely aligned to them. The growing realisation of this

\begin{itemize}
\item \textsuperscript{11} This was the first time in fifty years that the official opposition party in South Africa supported a policy that was more conservative than the ruling party in South Africa.
\item \textsuperscript{12} These were unbanned organisations claiming to be internally and not externally mobilised. After 1990, when the outside organisations were unbanned the link between themselves and the ANC was acknowledged.
\item \textsuperscript{13} The mass action and rent boycotts were causing the country to move closer to being ungovernable, a situation that the more extreme anti-apartheid organisations had wanted sanctions to cause. Botha attempted to deal with this deteriorating domestic situation through the use of strict security measures. See tables 6.11, 7.6 and 7.7 to show levels of increasing industrial unrest, lower business confidence and increasing political instability at the time.
\end{itemize}
fact led to increasing contact with the banned organisations at the time. President PW Botha even met Nelson Mandela, who was still imprisoned, to discuss ways in which the ANC could become part of the reform process. However, it would appear that the speed and terms at which Botha was prepared to implement political changes were too slow even for many members within his government. He did not want to take the big step in breaking away completely from the past. In September 1989, after suffering a stroke earlier in the year, he was succeeded as State President by FW de Klerk.

10.4.2. Developments under FW De Klerk

When FW de Klerk took over as acting State President he was determined to break the political deadlock by shifting the reform process onto a new and faster track. A general election was held in 1989 with the National Party promoting its past pursuit of a negotiated political settlement as the new issue for the future. After the election he became State President. In his acceptance speech he vowed to take steps to get South Africa out of its current political deadlock. Although he introduced the idea of power sharing as an option for a political settlement, he continued to distance himself from the total transfer of power as a possible solution for South Africa's political and economic problems.

His first important step to facilitate the movement towards a new negotiated political settlement took place on 2 February 1990. He unbanned all the previously restricted political organisations, while their leaders in exile were allowed to return to South Africa freely. He also announced the release of Nelson Mandela and all other political leaders from jail. A year later all remaining apartheid legislation, the so-called "pillars of apartheid" were repealed. After February 1990 a series of meetings took place

14 There were several clandestine meetings with the ANC even before Idasa organised a conference in Dakar, Senegal in 1987. A group of leading businessmen, including Gavin Reily of Anglo American and Tony Bloom of the Premier Group met the ANC in Lusaka, while Dr. Danie Craven discussed sporting issues with some of their representatives in Harare in 1988 (SAIRR 1989: 640).

15 De Klerk felt that security measures alone would not be able to address the deteriorating domestic political climate and realised that the government would have to enter into negotiations with the domestic anti-apartheid organisations to break the deadlock.

16 These included the Black Land Act (1913), the Development Trust and Land Act (1936), the Population Registration Act (1950) and the Group Areas Act (1966).
between the various important political groupings within South Africa, both on a formal and an informal basis. Although large differences in the outlook for the new South Africa among the various parties remained, all the important players were now involved in the process of negotiating a peaceful settlement.

By 1991 most of the criteria for the lifting of sanctions, but particularly those laid down in the United States CAAA, had been met. Initially this meant that the calls for more sanctions were dismissed as being inappropriate at a time when existing sanctions were gradually being lifted by certain countries, largely because the reform process was under way again. Britain under Thatcher was one of the first to lift the limited sanctions that it had imposed, while in July 1991, George Bush of the USA lifted Title 3 of the CAAA of 1986 as the five conditions for sanctions to be lifted, had been met. The EEC also acknowledged the encouraging changes that were taking place in South Africa and wanted to start lifting sanctions, but Denmark was not willing to go along to provide a unanimous decision at the time. Except for Britain and Portugal, the individual countries within the EEC were committed to a unitary policy regarding sanctions against South Africa.

Much of the lack of a multilateral approach in the lifting of sanctions after February 1990 was due to the fact that the ANC and other anti-apartheid movements at the time continued to call for sanctions to remain in place longer and even to be increased in order to strengthen their bargaining position in the negotiations for a new dispensation. According to this group, the ultimate goal of dictating the post-apartheid political framework had not yet been achieved.

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18 1. The repeal of the state of emergency and respect of the principle of equal justice under law for citizens of all races.
2. The release of Nelson Mandela, Govan Mbeki, Walter Sisulu, black trade union leaders, and all political prisoners.
3. To permit the free enterprise by South Africans of all races of the right to form political parties, express political opinions, and otherwise participate in the political process.
4. To establish a timetable for the elimination of apartheid laws.
5. To negotiate with representatives of all racial groups in South Africa the future political system in South Africa.
6. To end military and paramilitary activities aimed at neighbouring states (CAAA 1986: 8).
10.5. Sanctions were not the only development to serve the divergent political aims

Although the concluding evaluation of the role of sanctions against South Africa will be made in chapter 11, it is necessary at this stage to remember that other important developments mentioned before contributed significantly to the lifting of sanctions and to a negotiated new democratic dispensation. When interpreting the local political impact of such dramatic developments as the economic collapse of the Soviet Union and sub-Saharan Africa on the course of events after the imposition of the 1985-87 sanctions, it is also necessary to use the divergent political aims as a yardstick. This equally applies in respect of judging certain important developments such as the persistent unrest and particularly the organised mass action that was threatening to make the country ungovernable. It is, however, extremely difficult to do so in the case of the latter not only because of the known problems of distinguishing between cause and effect when dealing with economic developments and political changes, but more importantly because the events themselves modify the original political aims sought. In fact, the events and actions can best be seen as becoming part of the negotiating process without it being possible to evaluate the outcome against a clear or single objective.

Referring to the political implications of the two foreign political developments (the economic collapse of the Soviet Union and sub-Saharan Africa) these could have been as important or even more important than the sanctions in influencing the constitutional progress that was achieved in South Africa. The collapse of the Soviet Union and the demise of communism had diluted the extreme positions of the major political players within South Africa. The liberation movements no longer enjoyed their traditional ideological and material support from communist and African sources to promote their struggle and survive in future. They were increasingly becoming dependent on Western democracies for support, but not without some conditionalities. The South African government could also no longer rely on continued unqualified support from its traditional Cold War allies as the Western nations were coming under increasing pressure at home to take a firm stand against apartheid South Africa. Nor could it continue to rally staunch domestic support against the so-called total onslaught, as the threat had also subsided.

The dramatic confirmation of the political implications of the economic demise of Africa focussed the attention of the major political players on finding ways to avoid the mistakes experienced by other liberation movements when they first assumed power. This meant that a legitimate form of power sharing (democracy) would be looked at
instead while encouraging a market oriented economy. Not only would this be in the interest of a future South Africa, but also for the rest of the southern African region whose economic and political recovery depended on closer co-operation with South Africa.

When judging the domestic political developments at the time, sight must not be lost of the growing and generally acknowledged need for a negotiated, peaceful and more democratic dispensation to be achieved as demographic and economic changes eroded apartheid and brought about black urbanisation, as outlined in chapter 5. The original policy of co-option and appeasement of small groups within government initiated reform during the early eighties, was clearly insufficient to deal with the growing problem of black political power. The disenfranchised were becoming increasingly important, both economically and politically, to the point where they were able to render government's further initiatives ineffectual, thus making the country almost ungovernable. Under these circumstances, any efforts to maintain the status quo by suppression could have been extremely detrimental to all South Africans. A new way out had to be found as time was running out for all the major political parties involved. The South African government found itself in a position where it could no longer postpone the process of black political reform. Meanwhile, it also became imperative for the anti-apartheid movements to adopt a more pragmatic approach in reaching a settlement that would ensure a stable post-apartheid era with a viable economy in order to deal with the much broader problems of providing freedom, security and development for the South African society as a whole.

It is against this specific background that the economic sanctions in the case of South Africa must be evaluated. This is dealt with in the concluding chapter 11.
PART V

CONCLUSION
There are few countries that have for more than a generation been so closely associated with sanctions or the threat thereof than South Africa. Ironically, it was a prominent South African, General J.C. Smuts, who in his pamphlet *The League of Nations: a Practical Suggestion*, promoted sanctions after the first World War not as an instrument of war but as an economic weapon of peaceful pressure (Doxey 1971: 5). Although import sanctions had already been imposed against South Africa's apartheid regime in the early sixties and also the second half of the seventies, it was really only their escalation during 1985-1987 to include export and financial sanctions that such measures were designed to have a macro-economic impact in pursuit of specific policy aims. Any evaluation of a sanctions episode involves both economic as well as political dimensions, and they are often also historically quite unique. All these considerations together with the inherent limitations in techniques of economic analysis make such studies difficult and their results controversial.

11.1. Distinguishing features of the 1985-1987 sanctions

The purpose of this study was to evaluate both the economic and political impact of the 1985-87 sanctions imposed against South Africa. These sanctions were clearly different from previous South African experiences in that they were unexpected, more comprehensive in scope but diverse in application and with greater threats of further escalation. Furthermore, they were imposed during a rapidly changing foreign and domestic political environment with the intention of serving more divergent political interests than in the past.

Prior to 1985, many small countries or others sharing minor trade links with South Africa, had imposed sanctions against South Africa. At the same time, however, the focus of the country's more important trading partners had been on restricting only two strategic South African imports, i.e. oil and armaments. These sanctions had been imposed at times of economic recession over a 25 year period, when the weakness of the apartheid system was increasingly being exposed as the economy was becoming more
diversified and less vulnerable to sanctions. This long period of fairly high and stable growth in the past provided ample time and opportunity for South Africa to adjust to most of the adverse consequences of these first import restrictions by way of local import substitution, and by extensive stockpiling. By the early eighties South Africa had not only developed into a middle-income country that was less vulnerable to sanctions than ever before, but also faced a bright future after the dollar price of its major export, gold, had increased tenfold in less than a decade and the government had openly committed itself to move away from apartheid. The foreign policy relationship of the leading Western industrialised countries towards South Africa had improved to a position that was appropriately described at the time as one of constructive engagement.

By the middle eighties and quite contrary to expectations, however, South Africa was faced, on the one hand, with the worst recession since the thirties which culminated in the foreign debt crisis and, on the other, with a set of new sanctions that brought further foreign pressure to accelerate the process of political reform towards black majority rule. The prolonged recession was the direct result of the need to adjust to a series of external economic shocks also experienced by many other developing countries at the time. It mainly took the form of sharp deteriorations in their terms of trade and a sudden drying-up of freely available foreign commercial bank loan funds. (Chapter 6). Unlike previous recessions, South Africa found itself in a particularly vulnerable financial position in view of the exceptionally high short-term maturity structure of its foreign debt. It had little difficulty in servicing the interest obligations but could not meet the repayments when much of the short-term facilities were no longer rolled over, in contrast to the foreign debt crises faced by most other developing countries. The result was that South Africa had to adjust its external current account to a greater surplus, and maintain this position for a longer period than ever before in order to finance its rescheduled foreign debt repayments.

The consequent poor local economic conditions characterised by rapidly growing unemployment and continuous unrest invited the imposition of the new range of export and financial sanctions not through the United Nations, but by South Africa's respective major trading partners, and in the short span of three years, 1985-87. Also unlike the past, once the new set of sanctions was introduced the fear of an escalation diminished in spite of continued unrest and even though the threat of further sanctions remained. There were several reasons for this important difference. These included the progress already made and commitments given to abolish apartheid, local mass action and
growing political pressure to resume and accelerate the reform process, the regressive economic impact that further sanctions would have had on the majority of the black population in whose political interest sanctions had after all been applied in the first place, the adverse consequences that an escalation of sanctions may very well have had for the economies of the sender countries, and the political implications of the economic collapse of most of sub-Saharan Africa at the time and soon afterwards also of the Soviet Union. All these considerations suggested the effective use of peaceful negotiations between the major local parties concerned rather than the use of further foreign sanctions to achieve the desired political outcome.

There was little if any sense from the viewpoint of South Africa's major trading partners to apply further sanctions against those South African exports that were not already regarded as strategic imports for sender countries, from an economic or security viewpoint, by incurring escalating monitoring costs, and running the growing risk of having to apply sanctions against third countries for their non-compliance. There was the further real possibility that South Africa might be forced, under further export or financial sanctions, to discontinue the repayment of its renegotiated foreign debt obligations to the detriment of foreign banks in the sender countries, with substantial net economic relief to itself. In any case, there was even less sense in aggravating an already highly polarised political situation in South Africa that was threatening to make the country ungovernable and which could lead to a devastating civil war with far-reaching international repercussions, considering the racial composition of South Africa's population. The outcome could unintentionally prove costly and the very opposite to that which sanctions were originally designed to achieve.

Also, unlike previous experiences, the 1985-87 sanctions episode was responsible for the emergence of clear differences among anti-apartheid supporters of what exactly the role of sanctions was supposed to be. This development was to become of crucial importance later when criteria had to be agreed upon for the lifting of sanctions. It is, of course, of equal importance in evaluating the success or otherwise of the use of sanctions in the particular case of South Africa. Whereas previously it was adequate simply to pursue the aim of opposing the apartheid system, it had now become necessary to distinguish at least two political objectives that sanctions were to serve, and which were not always in harmony. The first was the acceleration of the abolition of apartheid to a point where the process could be regarded as irreversible. The second was to achieve a negotiated political settlement between the major local parties that would promise to provide a new
and stable constitutional dispensation with black majority rule. South Africa’s major industrialised trading partners saw a role for signal or selective sanctions in achieving the first, but no foreign interference in order to ensure the second. In contrast many other pro-sanctions countries and political groups favoured the use of savage sanctions or the retention of existing sanctions, more particularly for the purpose of strengthening the bargaining position of the disenfranchised majority in the contemplated negotiations.

It needs to be emphasised that in both cases the mounting costs of sanctions to the major sender countries as well as the adverse economic impact of sanctions on the South African economy, had to be weighed up against their uncertain political policy gains. As the sanctions escalated it could be expected that the cost would rise and so also the uncertainty of the political outcome. Clearly, whereas the first mentioned objective could have been said to be of international concern, the second was much less so, thereby giving greater weight to the cost of further sanctions to the sender countries. Furthermore, in view of the need to underpin any negotiating process in South Africa with improved economic conditions and business confidence to ensure its success, any severe sanctions could very well have expected to be counterproductive.

11.2. The main findings

Bearing in mind the complexity in examining many of the issues surrounding sanctions including in particular the relevant political aims sought and also the limitations of some of the techniques of analysis used to determine the economic impact of sanctions, the main findings of this study can be summarised as follows.

1. There were two distinct approaches to the abolition of apartheid as a foreign policy objective with the aid of the 1985-87 sanctions. The one foreign pressure group of countries perceived it to be a major policy objective, and promoted the use of savage sanctions irrespective of the economic consequences in order to reach a specific post-apartheid goal of unqualified black majority rule. Most members of this group of countries did not, however, have to bear the costs associated with the use of sanctions because they had very little, if any, economic interaction with South Africa.
The other group of countries mainly comprising the major Western industrial countries, considered the abolition of apartheid to be a relatively minor foreign policy objective as the local government had already committed itself to political reform away from apartheid. The greater the progress with such reforms, the more the future political dispensation became a domestic issue for the major local parties to resolve, rather than a foreign policy issue for the sender countries of sanctions. As a result, various signal sanctions rather than mandatory savage sanctions were reluctantly employed by them to accelerate the reform process and to promote negotiations, whereafter South Africans themselves would have to work out a quite unique compromise that would ensure long term political stability with a viable economy in a highly polarised society. In addition, this group was against incurring the high costs of imposing savage sanctions as its members enjoyed a not inconsiderable level of economic interaction with South Africa, albeit in varying degrees.

2. The major industrialised countries consistently adhered to this second approach and did not view apartheid as a threat to international peace that justified the use of United Nations sanctions in the eighties. Their stance is reflected in the limited scope and selective nature of the sanctions imposed during 1985-87. Furthermore, the escalation of these measures was avoided despite pressures to the contrary. (Chapters 2, 3, 8 and 10).

3. In fact, the policy of apartheid was gradually being eroded over time due to the dynamics of economic growth, and also later by government initiated reforms. As a result, apartheid as it was practiced and enforced in the middle eighties, was in many respects different to that which applied in the early sixties when sanctions were first introduced. The concomitant shift in the foreign policy stance of South Africa's major trading partners towards apartheid is best reflected in the description of their relations in the eighties as one of "constructive engagement", in contrast to a previous policy of "patient opposition".

4. Although the South African economy became much more vulnerable to changes in external economic events after the early seventies when the price of gold was determined like most other primary commodities by freely fluctuating market forces, the economy had meanwhile become less vulnerable to sanctions. Not only had successful efforts been made to reduce its dependence on strategic imports, but
South Africa's exports had also become more diversified both as regards product range and country destination. The country was, however, allowed to become exceptionally dependent on short-term foreign commercial bank borrowings during the early eighties, at a time when this source of funding started to decline generally and its net flow to developing countries in fact reversed itself by the middle eighties. This newly found financial vulnerability resulted in a partial foreign debt standstill, a financial crisis that was further exploited by the imposition of official financial sanctions, apart from the selective export sanctions. At the same time, South Africa's status as a considerable foreign debtor in trouble provided it with the option of reneging on its foreign debt commitments if it were no longer allowed through further export sanctions to generate sufficient foreign exchange earnings to service its foreign debt, or if the terms of debt repayments were to be made too onerous. (Chapters 5, 6 and 9).

5. South Africa's poor economic performance since the middle eighties, which continued well after the lifting of sanctions, is indicative of the fact that not unlike many other developing countries it was also suffering from a severe structural economic problem, apart from the impact of sanctions. South Africa also initially postponed adjusting to a weaker structural economic position. When it experienced the deterioration in its term of trade during the early eighties, it postponed adjusting local demand conditions and prospects downwards by relying on the financing of its trade deficit with short-term loans instead. When these were no longer forthcoming, as for many other developing countries, South Africa had no other option but to undertake a self-imposed and socio-politically painful structural economic adjustment programme. The result was escalating unemployment and unrest which, in turn, accelerated the constitutional transition away from apartheid to black majority rule.

6. An analysis of the limited scope and selective nature of the 1985-87 sanctions indicated that their economic impact could only have been expected to be very small. This is confirmed by subsequent analyses of their actual macro-economic impact. The effect of the export sanctions was soon neutralised, while the official financial sanctions as distinct from market financial sanctions, reduced South Africa's growth potential only marginally over time. Propaganda was, however, utilised in order to inflate the real impact of sanctions with the view to creating the
impression that the sanctions were causing the severe economic hardship experienced in South Africa at the time. This gave an exaggerated perception of the weight that could realistically and reasonably be assigned to the impact of the relevant sanctions as well as to the threat of their escalation. (Chapters 8, 9 and 10).

7. At the same time, there were other equal, if not more important developments after the 1985-87 sanctions, that created an environment much more conducive to expedite the abolition of apartheid, and prepare the way for a negotiated political settlement between the major local parties. These developments included the political implications of the economic collapse of most of sub-Saharan Africa and also of Eastern Europe and the Soviet Union in particular. The growing use of internal political pressure in the form of mass action and non-payment of local township services, on the one hand, and a change in central governing party leadership when the country was fast becoming less governable, on the other, also rapidly became more important than the sanctions issue in determining future political developments in South Africa. (Chapter 10).

8. Although the threat of further escalating sanctions always remained after the imposition of the 1985-87 sanctions, the likelihood that this would materialise diminished rapidly not only because of the risk that such action might prove counterproductive in the light of the changing domestic, regional and international political environment, but also because of the high cost that this would entail for the sender countries. Under the circumstances these countries were more concerned with when and how to lift the 1985-87 sanctions less than five years after imposing them, than to escalate sanctions. This was, however, still being advocated by other parties at the time as a means of influencing the outcome of the political negotiations in favour of the previously disenfranchised population. (Chapter 10).

11.3. Concluding evaluation

The course of events following the imposition of sanctions against South Africa can usefully be evaluated against the general criteria of an international political cycle of sanctions identified by Frey (1984). First he suggests that sanctions are a quick ad hoc political response to some form of unacceptable behaviour in the target country. This is normally followed by a pause during which the results as well as the measures are more
realistically evaluated. The outcome is often well below expectations. The pause also provides a useful opportunity to adjust some of the measures in favour of representation by pressure groups in sender countries, and to contemplate means other than sanctions to serve the same foreign policy objective. Once imposed, however, sanctions are rarely lifted either because of their disappointing economic impact, or their over-ambitious political intentions. Their impact is reduced over time and their purpose fades into obscurity until they are triggered again by some unacceptable political behaviour in the target country. (Chapter 4).

The imposition of the 1985-87 South African sanctions was a hurried response to the unexpected political events that were taking place in the country at the time, i.e. the growing unemployment and unrest. Not only were the economic and political consequences of sanctions not thought through, but the sanctions were contrary to the approach (constructive engagement to abolish apartheid) and peaceful objectives (preparing for a negotiated settlement without damage to the economy) of many of the Western industrialised countries' policies regarding the future of post-apartheid South Africa. However, some form of political response had to be forthcoming at the time to appease domestic concerns and constituencies in some major sender countries. Typically, because of the emotional rhetoric that accompanied the call for sanctions, the objectives of the particular measures were unclear and even inconsistent at times. There was general disapproval of the socio-political policy problem in South Africa, but no clear or confident proposals for its solution. As predicted for most other sanctions episodes, there also followed a pause in which a more realistic assessment of the measures in terms of their economic impact and political consequences could be made. Although there was some evidence that the declared political aims had not been met after the first year or two, sanctions were not escalated. This was the case despite the fact that the unrest which had in the first case triggered the 1985-87 sanctions continued to increase at an alarming rate.

Instead of proceeding with an escalation to obtain more satisfactory political results, much use was made of propaganda to create the impression that the existing sanctions had been effective in terms of their economic impact. The prevailing poor economic conditions were readily associated with the effect of sanctions, even though almost all of the conditions could be ascribed to other adverse external shocks suffered in common with many other developing countries at the time, including the need for South Africa's self-imposed macro-economic adjustment policies to deal with these structural economic setbacks. Needless to add, the economic result was far from socio-politically acceptable.
The propaganda also highlighted the threat that any escalation of sanctions would have severe adverse repercussions, even though this was known to be most unlikely. Not only was this the case because of the unfavourable cost-benefit arithmetic to the sender countries as compared to South Africa, but also because such an outcome, if realised, would have defeated the very modest political aim of the 1985-87 sanctions. By adding to the already depressed structural economic conditions in South Africa, a political environment would most certainly have been created to make the country ungovernable\(^1\), and be quite contrary to the original political objective of simply accelerating the reform process away from apartheid with minimum economic disruption. The temporary impact of the highly selective export sanctions and the marginal impact of the official as distinct from the market financial sanctions together with the absence of escalation, go to confirm the minimal economic damage that the signal sanctions were intended to have. Political propaganda at the time was largely responsible for the exaggerated perceptions of the economic impact of the 1985-87 sanctions.

When judging the impact of sanctions against the political objectives of the supporters of savage sanctions, it would appear that neither the economic aim of maximum damage, nor the political objective of surrendering political control to the revolutionary powers representing the majority were met during the sanctions episode. It is clear from chapters 8 and 9 that the particular sanctions were unable to cause any severe real damage to the economy. In fact, the limited impact invited further calls for the escalation of sanctions by this more extreme group of countries. The same applies to achieving the further objective to retain sanctions until power was handed over to the black majority irrespective of the country's political stability and the need to ensure a viable economy afterwards.

When measured against the political objectives in the industrialised countries who sent signal sanctions with minimum damage to an already depressed economy, but with a clear threat that the reform process away from apartheid had to be resumed and proceeded with at a faster pace, the role of 1985-87 sanctions is not clear cut. To the

\(^1\) It was the strategy of the more extreme anti-apartheid groups to promote the use of savage sanctions in order to make the country ungovernable so that the non-legitimate government would hand over power. What sanctions had not been able to do, had been taken further within South Africa with mass action, the non-payment of local township services and the threats of violence.
extent that the economic impact was only marginal, it does not necessarily imply that the sanctions were ineffective. The perception was created through the use of propaganda that the negative consequences (stagflation, debt crisis and growing unemployment) of a structural economic problem from which the country was suffering were associated with sanctions, and that matters could become much worse with any further escalation. It follows that even with the given limited real impact of the sanctions, the perceived impact and threat of an escalation could have proved successful in contributing to a resumption of reforms to abolish apartheid. Moreover, once the reform process was back on track and regarded as irreversible, this impression was underscored by the declaration that the limited foreign policy objective of the signal sanctions imposed by major industrialised countries in 1985-87 had been met and sanctions would in fact be lifted soon afterwards.

Although it can be said with some confidence that the 1985-87 sanctions together with the threat of escalation played a role in achieving the resumption of the process to abolish apartheid, and even in preparing the way for a new democratic dispensation, it is difficult to assign to sanctions any such major role under the circumstances. There was in fact no escalation, while other domestic, regional as well as international political developments during the latter half of the eighties also contributed significantly to the same end.

The impact of these other, almost simultaneous, developments included firstly, growing internal pressure from opposing political forces causing continued economic disruptions; secondly, the economic collapse of Eastern Europe and particularly of the Soviet Union with the prospect of greatly diminished ideological and material support for the anti-apartheid liberation movements; and thirdly, the economic collapse of most of sub-Saharan Africa. The previous view that apartheid South Africa was a major destabilising force in the region was rapidly changing to one where it was being perceived as the only hope to restore political stability and act as an engine of economic growth for the depressed African countries, once a new democratic constitution had been negotiated and a viable market-oriented economy re-established, i.e. after apartheid. Judged against the political impact that these developments had on the various roleplayers on the South African scene at the time, it would be difficult and indeed unconvincing to ascribe more than a minor role to the actual sanctions in shaping the course of events after 1985-87 in South Africa. Meanwhile, this conclusion must await the findings of further research on the contribution of these other important developments at the time.
Viewed in a wider modern world context of using sanctions in order to achieve foreign policy aims, it has already been pointed out that the South African episode corresponds with Frey's political cycle of sanctions in respect of the imposition of sanctions, the subsequent pause to take stock, and the unlikely escalation of measures. South Africa's experience differs, however, from the last phase of Frey's general cycle of sanctions that predicts a long and uncertain period before such measures are either lifted, or if forgotten are only rekindled when the target country again resorts to politically unacceptable behaviour according to the sender countries. In fact, the rapid and determined lifting of sanctions against South Africa once the limited political objective of accelerating the process of reform away from apartheid to a point of no return had been achieved, even before entering into local negotiations for a new democratic constitution, suggest that forces other than sanctions played a more important role in the outcome. It even suggests with the benefit of hindsight, that the signal sanctions may not have been necessary after all.

These concluding considerations make the South African sanctions experience appear exceptional if not unique. The study suggests that the South African sanctions episode must be regarded as both country and time specific in view of the relative rather than absolute political objective sought by the major sender countries, the exceptionally low vulnerability of the target country's economy, the highly selective nature of the trade sanctions as well as the voluntary nature of much of the restrictive financial measures, the real marginal macro-economic impact of the sanctions, and the importance of several other domestic, regional and international developments at the time in contributing to the subsequent desired political course of events. The study confirms, however, that sanctions are a poor and inadequate instrument of foreign policy in that the economic impact of such measures is invariably exaggerated, while its contribution to the political outcome is at best uncertain.
(Only sources that have been quoted or referred to in this study appear here.)


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