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SANCTIONS AND THE SOUTH AFRICAN ECONOMY

South Africa is an international political outcast. No other country has ever declared itself in favour of the apartheid system and almost all member states of the UN have officially called for its rapid demise. The contemporary discussion about sanctions against South Africa is located between this wish to hasten the end of apartheid and the reluctance to use direct military force to achieve this objective.

The debate ranges across political, moral and strategic issues as well as economic questions and extends beyond South Africa to include consideration of the effects of sanctions (or retaliatory action by South Africa) on neighbouring states and the sanctions-initiating countries. The subject of this Briefing Paper is far narrower. It focusses on the South African economy, and the effects of different economic measures on it, together with the effects of such international economic action on future development prospects. A second Briefing Paper on sanctions, to be published next year, will consider the effects of sanctions on the neighbouring countries of Southern Africa.

Sanctions and South Africa's External Vulnerability

Economic sanctions consist of actions taken by governments and other groups which can have or are intended to have adverse effects on the economy to which they are directed. There is little doubt that the South African economy as presently structured is vulnerable to an array of international action, most particularly in the spheres of trade, investment, finance, technology, skills transfer and transport.

In 1985, South Africa's **exports** were valued at $18.2bn, 33% of GDP, its imports at $12.7bn, 23% of GDP. These ratios have varied little for 25 years. **Gold** plays a pivotal role in the South African economy. It earns 35-40% of all foreign exchange earnings, employs nearly 10% of non-agricultural employees, underpins state revenue and provides a critical stimulus to domestic demand.

Direct foreign investment and reinvestment by foreign companies played a major part in South Africa's expansive economic growth in the 1960s and 1970s. Today over 150 major foreign companies are active in the country's economy. Total foreign liabilities are equivalent to 15% of all fixed assets and 28% of all private sector assets (nearly 40% in the manufacturing sector). In 1983, direct foreign investment totalled some $17bn.

External loan finance now constitutes an even more important part of foreign liabilities. In 1970 foreign loans amounted to 40% of the total stock of foreign liabilities, but by 1984 they had risen to over 70% of the total. Foreign loans have been used increasingly to finance parastatal expansion programmes, to boost domestic saving and, more recently, to finance increased government expenditure and fund balance of payments deficits. Today, South Africa's foreign debt totals $23bn.

South Africa's economy has been built upon a high degree of **international technological dependence**. Machines and intermediate products constitute over 65% of all imports, providing critical inputs into the mining, manufacturing, and commercial agricultural sectors. The computer, electronics and machine tool industries are particularly dependent on foreign technology. South Africa has always suffered from a **severe shortage of skilled workers** and traditionally it has dealt with this by immigration. In the 1960s and 1970s net white immigration was running at over 30,000 a year, but numbers have fallen dramatically in recent years. In 1985 and 1986 there was a net *emigration* of skills. However, the demand for such skills remains high. **Air and sea links** are essential for South Africa's international trade and commercial life, and the country depends on imported oil and transport equipment to maintain its domestic transport system. It currently imports some 65% of its consumption of refined oil products, 40% of all vehicular components, and all aircraft and most aircraft spares. Oil meets 25% of all the economy's primary energy needs and accounts for 80% of transport sector energy consumption.

International action would have the greatest impact if comprehensive mandatory sanctions were imposed on South Africa's economy. Such action is not on the current political agenda of South Africa's major international partners. But increasingly over the past two years, governments and other economic agents both outside and inside South Africa have taken selective action to affect South Africa's economy, and it is anticipated, not least by the South African authorities, that such action will increase.

Adverse Internal Effect of Sanctions

Clearly, reducing South Africa's access to foreign investment, finance. technology and skills, and curtailing its external trade, will have a range of adverse internal effects. Costs will rise, employment will fall, probably inducing commodity shortages. More generally, investment and foreign exchange earnings will decline and economic growth rates will be lowered. The impact of some measures is likely to be more severe and immediate than that of others. For instance, success in cutting off oil supplies, blockading South Africa's ports, ending the country's access to all foreign finance, and perhaps most significantly, concerted action by central banks engineering a substantial fall in the price of gold, would each have a rapid adverse effect on the South African economy. Beyond these types of action, the greater the range of measures imposed, particularly by South Africa's major economic partners, the greater and more immediate will be the resulting adverse economic effects, especially if alternative suppliers or markets cannot easily be found.

However, it is difficult to quantify the detailed effects of particular sanctions especially in the longer term, since they cannot easily be separated from other factors influencing the South African economy. South African statistics on international trade and finance are far from comprehensive, frustrating even simple analysis of the

Box 1: Chronology of Major Policy Initiatives to Restrict Trade with South Africa

1963 The Security Council institutes a voluntary arms embargo against South Africa. Britain and France abstain.

1973 African and Arab states impose an oil embargo on South Africa.

1977 The Security Council imposes a mandatory arms embargo including a ban on co-operation in the manufacture and development of nuclear weapons.

1979 UK oil guidelines exclude South Africa from British oil exports.

1981 Norway and Denmark agree to ban export of North Sea oil to South Africa.

March 1985 Sweden's major coal importers agree to phase out South African coal imports over a two-year period.

September 1985 Austria and Nordic countries ban export of computers for South African police and military use.

October 1985 US imposes mandatory ban on imports of Krugerrands.

November 1985 French parastatal coal and electricity companies refrain from renewing contracts to purchase South African coal.

December 1985 Nordic countries ban import of Krugerrands.

May 1986 UK imposes mandatory ban of import of all gold coins of South African origin. Australia and New Zealand impose mandatory ban, Canada and Japan a voluntary ban.

June 1986 Denmark announces a ban on all trade in goods and services except the export of medicines, from December 1986. (In 1985, Danish imports from South Africa valued at £127mn, exports to South Africa at £5mn).

August 1986 Commonwealth leaders (except Britain) agree to ban air links with South Africa, cut off imports of agricultural products, uranium, coal, and iron and steel. (In 1985, Australia imports from South Africa valued at £53mn, exports to South Africa at £54mn; Canadian imports from South Africa valued at £166mn, exports to South Africa at £150mn.)

September 1986 EEC countries agree to ban the import of gold coins and iron and steel from South Africa. (1985 imports of these products valued at $577mn.)

October 1986 US legislation passed banning air links with South Africa, the importation of iron and steel, arms, ammunition, military vehicles, farm products, textiles, uranium, coal and textiles (valued in 1985 at $710mn) and the export of petroleum, crude oil, munitions, nuclear technology and computers used by agencies involved in administering apartheid (valued in 1985 at some $80mn).

October 1986 Republic of Ireland introduces restrictive licences for imports of South African fruit and vegetables. Total ban after January 1987.

November 1986 Hong Kong bans imports of South African iron and steel products.

In addition, Norway has stated its future intention of ceasing all trade with South Africa, Sweden has banned the import of all agricultural commodities from South Africa, the Nordic countries have banned all air links with South Africa and Canada has banned the imports of South African farm produce, uranium, iron and steel and closed South African airline and tourist offices.

direct impact of particular sanctions. The origin of oil and armament imports and the destination of gold exports are classified secrets; trade with African countries is not disaggregated, and no official figures on debt and foreign investment are published. Finally, the success or failure of economic sanctions will ultimately be judged not by their economic results but by their political consequences. The current debate about sanctions is ultimately about bringing about political change rather than destroying South Africa's economy. For these reasons, despite the intensity of political debate about sanctions, there is today a lack of detailed, comprehensive and up-to-date analyses of the direct impact of different existing or potential economic sanctions and their longer-term effects on the South African economy.

The Choice of Sanctions

Sanctions in the three areas of trade, foreign investment and finance are currently being considered by different governments and influential non-government organisations. Although public debate and media coverage has focussed on sanctions directed against trade and direct foreign investment, in fact it has been the action taken by foreign banks to withhold South Africa's access to foreign finance that has had the most significant effect on the South African economy.

Trade Sanctions

Increasingly, governments trading with South Africa have imposed international trade sanctions and embargoes, and a number of South Africa's trading partners are actively considering further measures of this kind (Box 1 provides a summary of the main recent measures). Despite its relative sophistication, South Africa remains principally an exporter of primary products and an importer of machinery, transport equipment and manufactures. The direction of trade and the prospects for switching suppliers and final markets are crucial elements in evaluating the potential effects of increased trade sanctions.

Gold exports have traditionally been channelled through Europe and in particular through Switzerland and Britain. After a flurry of activity in Krugerrands (gold coins) in the 1970s, by 1978 half of all gold was being sold in this form. However, since then international resistance to Krugerrands has been so widespread that the South African Reserve Bank stopped minting the coins late in 1985. But there has not been any significant fall in aggregate gold exports which have recently also found markets in Japan and other Asian countries.

Excluding gold, South Africa's major export markets have been in Western Europe, the United States and Japan; these countries have also been the main suppliers of South Africa's imports. In 1984, just eight countries — Britain, West Germany, France, Italy, Belgium, the United States, Switzerland and Japan — took 71% of South Africa's non-gold exports and supplied 78% of its imports. The United States, West Germany, Japan and Britain alone provided South Africa with some 60% of its total imports.[1] EEC countries on their own took over 40% of South Africa's exports and provided over 40% of its imports. South Africa's trade with other African countries is small in aggregate terms: 7% of all its exports go to these countries while only some 2% of South Africa's imports originate there.

Total trade figures by country or country grouping are clearly relevant to the sanctions debate, but if the debate remains confined, as at present, to measures restricting the trade of specific goods, a more complex breakdown of trade by country and particular commodity group is required. Two recent policy measures of this kind have been the EEC's decision in September to cease importing gold coins and iron and steel, and new US legislation, passed in October, banning *inter alia* imports of South African iron and steel, coal, farm products, textiles and uranium, and exports of petroleum, crude oil and computers destined for use by South African state

1. Excluding oil and arms imports which are not recorded by country of origin.

Table 1
Selected South African Exports by Principal Destination
1984, $m

Country of Destination	Food and Agricultural Products Value	% Share	Iron and Steel Value	% Share	Coal Value	% Share
1. EEC	904.7	53	250.0	23	684.0	56
2. US	230.6	13	329.0	31	27.1	2
3. Japan	215.1	13	168.4	16	378.4	31
4. 1+2+3	1,350.4	79	747.4	70	1,089.5	89
Total South African exports	1,714.2	100	1,074.9	100	1,219.3	100
% of total South African exports		10		6		7

(Commodity Classification)

Sources: IMF, *International Financial Statistics;* UK Department of Trade and Industry, *Overseas Trade Statistics of the UK;* Republic of South Africa, *Monthly Abstract of Trade Abstracts;* UN, *Commodity Trade Statistics* (various editions).

institutions. Using 1985 trade data, the EEC measures would, if successful, affect $577 million of South African exports to the Community (5% of all South African/EEC exports), the US measures $710m (33% of all South African/USA exports). However, taken together these measures would affect only 7% of the total 1985 value of South African exports. The US measures restricting exports to South Africa are estimated to be worth some $80m, less than 10% of all US exports to South Africa.

A *total* ban on the importation of all food and agricultural products, coal and iron and steel imports by the US, Japan and all EEC countries would, on 1984 trade figures, affect $3.2bn of South African exports, 16% of all South African exports (see Table 1).

The overall economic impact of these or other commodity-based trade restrictions depends on how easily the South Africans are able to circumvent them. The least costly ways of doing this are to find alternative markets for exports, or alternative sources of imports. For exports the ability to disguise the origin of the products and to penetrate the embargoed market using circuitous routes is particularly important. Beyond this, embargoed products could be offered at a discount to increase market shares, and banned imports could be purchased at a premium to attract illegal traders. South Africa has been (and is) trying all these measures. However, even if this policy succeeds in the goal of maintaining South Africa's external trade in embargoed goods, this success will be bought at a considerable cost, as evidence on the effects of oil sanctions reveals (Box 2).

Foreign Investment

So far the two most important sanctions against foreign investment in South Africa have been the decisions of the EEC, the United States and the Commonwealth to ban new investment there, and the separate decisions of an increasing number of foreign companies involved in South Africa to pull out or announce their intention to withdraw.

The effect of the ban on new investment is likely to be minimal. Increasingly over the past five years, and in marked contrast to the 1960s and 1970s, very little new direct foreign investment has been entering South Africa since returns on investment have fallen sharply and investor uncertainty about the future has risen. Current measures related to companies with investments presently held in South Africa are more ambiguous. New measures agreed by the EEC in September make no reference to these investments while the Commonwealth agreement of August (excluding Britain) did recommend a ban on the reinvestment of profits. The October US measures state that profits can be reinvested. US companies operating in South Africa are permitted to make cash injections to their South African operations to enable them to continue to operate in an 'economically sound manner' but not to 'expand operations'.

Independent decisions by companies to withdraw from South Africa have had a greater immediate impact. In 1983, Britain (35%), the United States (20%), West Germany (10%), France (10%) and Switzerland accounted for the bulk of direct foreign investment. Overall, in the period 1977 to 1984, there was a net outflow of direct and portfolio investment of some $2.7bn. More recently, the pullout of US firms has been particularly significant: between 1982 and October 1986, some 70 US firms announced their decision to withdraw from South Africa — seven in 1984, 39 in 1985 and 22 in the first 10 months of 1986, including some with major investments such as IBM, General Motors, Kodak, Proctor & Gamble and Coca Cola.

But Britain is the single most important source of direct foreign investment in South Africa. Only a few British non-financial companies have announced their complete withdrawal from South Africa in recent years, including Associated British Foods, Smiths Industries, Alfred McAlpine and Pritchard Services. However, some with large investments, like Metal Box, Turner and Newall, Blue Circle, MK Electric and Chloride, have significantly scaled down their operations or sold out to South African interests. Figures released in October by the Department of Trade and Industry show that between 1982 and 1984 UK company disinvestment from South Africa amounted to £147 million.

Apart from direct investments, there are also sizeable indirect (portfolio) investments in South Africa held especially in Britain and the United States. For instance, in May 1986 the stock of indirect British investments had a nominal market value of £3.3bn, more than the value of direct investments. The movement out of indirect investment, and the more significant decision of corporate bodies to sell their investments in companies continuing to invest in and trade with South Africa, has been greatest in the United States. For instance, the US-based Investor Responsibility Research Center states that by October 1986, 19 individual states, 68 cities and 119 universities had sold securities in firms involved in South Africa and barred companies with South African interests competing for public contracts. Similar types of action have been less extensive in Britain. However, recent initiatives by the TUC and some 15 local authorities advocating the disinvestment of pension fund money from South African firms or from UK firms with major South African interests suggest that indirect action in Britain is set to rise.

Although difficult to quantify, the economic impact of increased company withdrawal and portfolio disinvestment has been having an effect on the South African economy. One direct effect has been a fall in domestic saving and aggregate investment, a related effect being to put increased strain on the balance of payments because of rising profit and dividend outflows. It was this latter trend that led in part to the introduction of measures restricting the outflow of dividends and the re-introduction of a dual exchange rate system in 1985, resulting in a lower exchange rate for international financial transactions.[2] However, because a massive acceleration in foreign company withdrawal will lead to downward pressure on the market price of assets, exacerbated by a further significant fall in the exchange rate, it would be constrained in the short term because the potential losses to foreign companies could be considerable.[3] Such action is likely to be resisted particularly by those companies where South African interests constitute a significant share of total assets. Equally, the impact of foreign company withdrawal on employment in South Africa is unlikely to be severe because the most common pattern has been for companies to sell their assets to South African interests which have usually maintained production with only marginal changes in business practice. However, as this particular process entails utilising domestic resources to purchase the foreign interest, it could lead to an overall contraction in potential domestic investment, or to increased inflationary pressures unless countervailing credit expansion is strictly controlled.

But perhaps the greatest effect of foreign company withdrawal is to fuel further the decline in international and domestic confidence in the short- to medium-term prospects of the South African economy, providing a critical brake on the government's attempts to stimulate the economy and address the country's growing unemployment problem. Obversely, too, such action provides added encouragement to domestic groups involved in consumer boycott campaigns.

Box 2: Oil Sanctions Against South Africa

In 1973, African and Arab states imposed an oil embargo on South Africa. In 1979, the UK's oil guidelines removed South Africa from a list of countries to which British oil products could be exported and in 1981 Norway and Denmark agreed to ban the export of North Sea Oil to South Africa. Yet in the intervening period South Africa has managed to continue importing oil products, up to 1979 principally from Iran but thereafter largely through purchases on the spot market. Although this would tend to suggest that oil sanctions against South Africa have been a failure, for they have clearly not prevented the importation of oil, the costs to the South African economy have been considerable.

South Africa has responded to oil sanctions in four ways. First, it has worked continuously to evade the embargo, which has resulted in it being able to import its oil requirements but at the cost of having to pay a high premium above prevailing market prices to secure supplies. Second, it increased substantially its storage capacity to hold stocks in excess of current requirements. Third, it stepped up its oil exploration in an attempt to discover domestic sources of natural oil and gas. Finally, it embarked on a massive investment programme to extract oil products from domestic coal supplies.

There can be little doubt that these different efforts to counter oil sanctions have had a significant effect on the South African economy. While detailed analysis of the total costs to the economy cannot be made because of the understandable secrecy surrounding these various policy responses, some figures have been made available. In April this year, President Botha revealed that between 1974 and 1984 South Africa had to pay R.22bn over and above prevailing prices to procure its imported oil requirements. This was equivalent to some 10% of export earnings. The capital costs of building the three SASOL (oil from coal) plants have amounted to some £7bn. These now provide about 35% of domestic oil requirements but also at a cost: in 1983 it was estimated that a barrel of SASOL oil was costing about $75 to produce. If South Africa was to expand SASOL capacity further to increase domestic self-sufficiency up to 70%, recent estimates suggest the additional capital costs would be a further £14bn. Oil exploration efforts have been scaled down considerably since the late 1960s and 1970s; but up to the end of the 1970s over $100m had been spent on onshore and offshore exploration with, apparently, the only success being the finding of offshore gas in the sea off the Namibian coast.

Foreign Finance

It is in the sphere of financial sanctions that the greatest impact on the South African economy has been felt. As the Governor of the Reserve Bank of South Africa remarked in August, financial sanctions by foreign investors and banks over the past 18 months damaged South Africa's economy more than threatened trade sanctions were likely to do. In the late 1970s and early 1980s there was a rapid expansion in foreign borrowing by Government, a range of parastatal institutions and the private sector. The major sources of this foreign financial inflow have been the IMF and foreign commercial banks, with the bulk of funds being obtained from the latter. Because of the uncertainties surrounding South Africa, these banks have increasingly offered short-term rather than long-term loans. Between 1980 and 1984 the ratio of short-term to total foreign liabilities rose from 29 to 41%. In the period 1980 to 1985 alone, there was a net inflow of R.6.9bn destined for central and local government and the parastatals. By September 1985, South Africa's total external debt amounted to $24bn, of which some $8bn was owed to British banks.

It was in mid-1985 that the leading foreign banks, led by a small group within the US, decided not to roll over their short-term loans and to freeze new credits to South Africa. This action was not initiated principally for financial reasons as South Africa's debt service ratio was less than 15%, its balance of payments position had improved in 1983/84 and foreign bank liabilities had fallen from the peak level of $18.8bn reached in 1983. However, this effectively cut off South Africa from what had become an increasingly important source of funds, critical for future growth prospects. It led the South African authorities to declare a moratorium on debt repayment and to freeze payments on $14bn (58%) of its total outstanding foreign debt. Subsequently an agreement was reached in March this year for the rolling over of suspended repayments until June 1987, providing $500m of debt maturing in that period would be repaid.

South Africa's debt crisis, still far from over, is having a profound effect on its economy. It led initially to the reintroduction of severe foreign exchange restrictions and

2. At the end of November 1986, £1 Sterling = R.3.20 (commercial) and R.6.46 (financial).
3. Additionally, transactions via the Financial Rand are subject to particular restrictions.

thereafter to a dramatic fall in the value of the Rand, increasing the trade surplus needed to repay past debt commitments. South Africa's credit rating is falling and international banks are unlikely to offer loans to South Africa in significant amounts in the future. While some Swiss and West German banks may well continue to lend to South Africa, it is likely that any future loans will carry a high premium and be of extremely short-term duration, increasing still further South Africa's already troubled external financing difficulties. The future role of Japanese banks and trading houses, many of whom have a presence in South Africa, remains uncertain.

It is also likely that the combination of political pressures, economic uncertainty, declining profits and financial caution will increase the number of leading banks unwilling to do business with South Africa. By mid-1986, 26 major US banks had adopted formal policies banning new loans to private or public sector borrowers in South Africa, compared with only three banks two years before. And for their part, leading British banks, like Hill Samuel and Standard Chartered, have scaled down their direct involvement in South Africa in the past few years. But the most significant recent development was the announcement at the end of November by Barclays, South Africa's leading foreign bank, that it was withdrawing completely from South Africa — it had already relinquished majority control of its South African subsidiary in May 1985. The action by Barclays is unlikely to have a major *direct* adverse effect on the South African economy, since its assets have been sold amicably to South African interests (the final profit from the sale will only lead to an outflow of some £6m). But the indirect effects are likely to be far greater. Barclays' decision will put further pressure on other British financial and non financial investors to pull out, as well as on other commercial banks still willing to extend their loans to the country.

Given these pressures, South Africa could face a particularly acute dilemma. If it believes that the prospects for obtaining access to large amounts of private foreign finance are particularly bleak it could decide to renege on its foreign debt obligations and halt all payments, as has been mooted by South Africa's Ambassador in London. While such action would relieve the country of some of its most pressing foreign exchange obligations and thereby ease short-term economic constraints, it would increase the likelihood of an end to all future foreign bank credit. That in itself would have long-term deflationary effects on the economy and would perhaps increase the likelihood of western countries extending the existing range of sanctions.

'Perverse' Effects of International Action

Some international action against South Africa can have unintended consequences. The fall in the value of the Rand has increased the attractiveness of further import-substitution and raised the domestic returns from South Africa's exports. Particularly within the mining sector, it has provided the potential for expansion of export production (especially of non-embargoed products) by re-establishing the economic viability of some previously loss-making enterprises. Of perhaps more importance, at least in the short term, has been the significant rise in the international price of some of South Africa's leading mineral exports, partly because of speculation about an extension of the trade embargo. The greatest benefit has come from the rise in the price of gold which between April and September this year rose by some $60 an ounce. On present production levels, a $50 rise in the gold price adds more than $1bn to the value of South Africa's gold exports increasing current total export earnings by over 7%. A $70 rise would on this year's trade forecasts make up in foreign exchange the total loss in external earnings arising from a successful comprehensive ban on South African coal exports. Significant rises in the prices of platinum and diamonds have also occurred in recent months.

It is the contribution of South Africa's production of leading metals to world production which has led some commentators to argue that moves towards tightening trade sanctions could bid up world prices and bring significant gains to South Africa through increased foreign exchange earnings, on the assumption either that these products will not be embargoed or that circumvention would be relatively easy to arrange. Certainly South Africa is a major and important producer. South Africa produces the following proportions of total world production (high estimates) for the following products: gold 55%, uranium 25%, platinum 80%, chrome 31%, manganese 22%, diamonds 20%, vanadium 38%.

But these figures must be viewed in a broader context. The significant rises in the price of gold, platinum and, less dramatically, diamonds have not been followed by a rise in the international prices of South Africa's other leading mineral and metal exports; and, excluding gold, the overall effect has not been great. Apart from gold, but including platinum, South Africa's Mineral Bureau forecast in October that South Africa's unprocessed and processed mineral and diamond exports would rise in value by only $450m in 1986 compared with 1985. As for the medium-term future there is little to indicate a significant rise in the world prices of any of South Africa's leading mineral exports, including gold and platinum. If past experience is a guide, then the gold price level will be characterised by short-term price volatility. And over the medium term, most forecasts suggest the price will either remain steady, or, more likely, fall because of a 15% increase in world production to 1990, destocking by eastern countries, a dramatic fall in Japanese demand and a significant rise in USSR and Chinese gold sales caused by foreign exchange shortages associated with the fall in the oil price. As for the other minerals, significant over-supply is forecast for the next few years for all South Africa's leading non-gold commodities while the platinum price is forecast to fall back.

Sanctions and Unemployment in South Africa

If economic sanctions against South Africa are successful, they will tend to have an adverse effect on its economic performance and potential leading, *inter alia,* directly and indirectly, to a fall in aggregate employment. However, this will not always or necessarily be the outcome. For instance, the longer-term consequences of oil sanctions against South Africa have undoubtedly led to a rise in employment in oil-related activities even if greater employment opportunities could have been created by a less capital-intensive use of investment resources. Additionally, some scope probably exists for further import substitution policies to be pursued behind the barriers of increased trade sanctions, although the majority of South African businessmen believe that these opportunities are limited. The extent to which changes in employment levels are related to international action taken against South Africa depends on a number of factors: the particular measures applied, their duration and the policy measures carried out in response to particular sanctions, dampened or heightened by other domestic and international economic forces.

In spite of these difficulties in tracing through the detailed employment effects of different sanctions, some general points can be made. Because there are far more blacks in formal employment than there are whites in South Africa (less than 25% of all formal sector employees are white), overall contraction of the South African economy will have the effect of putting more blacks out of work than whites. Additionally, because an even greater proportion of blacks are employed in labour-intensive export-oriented industries such as in commercial agriculture and mining, specific trade sanctions successfully preventing exports of these labour-intensive commodities will produce a direct fall in employment leading to even greater amounts of black rather than white unemployment.[4] On the other hand, trade sanctions against luxury imports, international passenger travel or imports of inputs into the manufacturing sector will tend to have a greater impact on the more affluent white community even if the absolute numbers of blacks affected by such measures would probably be still greater.

Again, these factors must be placed in a broader context. South Africa's poorest groups, overwhelmingly black, are already unemployed or living outside the cash economy. Unofficial estimates suggest that over three million people, some 25% of the entire workforce, are currently unemployed. The direct effect of sanctions on these groups will be minimal although rising black unemployment will tend to cut cash remittances to these groups. Furthermore, international action which adversely affects national economic development will affect the wealthier white-dominated part of the economy proportionately more than it will affect South Africa's black population. This is both because the participation rate of whites in the modern sectors of the economy is higher than it is for blacks (43% to 33% respectively) and also because 58% of private consumption expenditure is derived from the white population. Thus, for instance, it has been estimated that a boycott to the extent of 20% of 1976 exports would have led to an increase in unemployment of 433,000 (whites 90,000, non-whites 343,000).[5]

Between 1965 and 1973, the South African economy grew at the rate of 5.1% p.a. and in the period 1975-80 it grew at 3.1% p.a. The average growth rate from 1980 to 1985 was 1.1% and is not expected to exceed 1% this year. Yet even in the 1960s and 1970s the economy was not expanding fast enough to absorb all the potential job-seekers. In the 1980s the unemployment problem has become even more acute, as employment rates have fallen in manufacturing and agriculture and stagnated in the mining sector. South Africa's population is growing at over 2.7% p.a. and it is estimated that the number of work seekers will double during the 1980s. The country's economic planners have calculated that growth rates of between 4.5 and 5.0% are needed in order to create sufficient employment opportunities in the economy.

However, to achieve and maintain such high rates of economic growth requires increased participation in the world economy through expanded international trade, new foreign investment and increased access to modern technology and international financial resources. Taking just one of these items, economists at the Anglo-American Corporation judge that to grow at 5% a year South Africa would require funding from abroad for some 10% of total investment, implying foreign investment of about R.3bn a year to the end of the decade. And on the trade front, as the Governor of the South African Reserve Bank observed in October, the economy needs to run a current account surplus equivalent to 5% of GNP to repay its external debts. But to do this without access to new capital funds and expanding international trade necessarily means that the economy will have to grow more slowly.

While the South African economy will continue to experience short-term volatility and even a rise in its growth rate (the authorities and major banks are forecasting 3% growth in 1987), in the absence of increased international participation in its economy, long-term growth rates are set to remain low, leading to further unemployment. This overall trend of rising unemployment must be highlighted rather than more marginal changes in unemployment levels resulting from successfully targetted partial trade sanctions.

Domestic business confidence continues to be adversely affected by international pessimism about long-term prospects. It seems that business confidence will only be substantially raised if the South African authorities address the fundamental political problems facing the country. That is why South Africa's leading businessmen have entered the political debate by publically calling on President Botha to lift the ban on outlawed black organisations and enter into a process of dialogue and discussion.

Conclusion

South Africa can no longer hope that economic expansion in the context of apartheid will resolve its difficulties. Even without further sanctions, low international and domestic confidence are set to interact, reducing rates of economic growth and increasing levels of unemployment. Effective sanctions will contribute to this process, by increasing domestic costs and restricting access to much-needed foreign exchange and, more fundamentally, deepening pessimism about the country's medium-term prospects. South Africa is particularly vulnerable to two key types of sanction: restrictions on access to foreign finance, and actions aimed at initiating a substantial fall in the price of gold.

One particular merit of increased sanctions would be to remind South Africa of what it knows already, that it now has no medium-term option other than to negotiate internal political reform, an essential prerequisite for achieving high and sustainable economic growth. Until this happens, South Africa faces only further economic deterioration, in the medium term and beyond.

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4. Although direct unemployment could be mitigated by providing subsidies or loans to loss-making export-oriented industries.

5. M. Fransman, *The South African Manufacturing Sector and Economic Sanctions*, IUEF, Geneva, 16 August 1986, p.33.

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