U.S. CORPORATE EXPANSION IN SOUTH AFRICA

"It is true there are blacks working for us. They will continue to work for us for generations, in spite of the ideal that we have to separate them completely. . . . The fact of the matter is this: we need them because they work for us. . . . But the fact that they work for us can never entitle them to claim political rights. Not now, nor in the future. . . under no circumstances."

– Prime Minister J.B. Vorster, in the House of Assembly, April 24, 1968[1]

"You have the problem that you don't always know exactly when to change over from police action to military action. But South Africa has now reached the stage where. . . it is becoming more and more a war of low intensity."

– The Minister of Defense, Botha, March 14, 1974[2]

"We have learnt that our large economic relationships are our best shield in a world which has chosen us as scapegoats."

– Professor W.F.J. Steenkamp of the University of South Africa[3]

"Every time a South African product is bought, it is another brick in the wall of our continued existence."

– Prime Minister J.B. Vorster[4]

The Republic of South Africa is acknowledged by most investors as one of the last countries with still vast untapped natural resources, an enforced political stability, and a highly capitalist economy allowing for maximum profits. South Africa is also internationally known as the home of apartheid, where 4.5 million whites control over 20 million Africans by military means. To provide a stable political order and an investment climate that continues to be favorable, South Africa's military budget is expected to jump 210 percent from 1974 to 1980.[5]

Church investors have long been concerned with the generally adverse effects of foreign investment for the African populations of South Africa. Despite wage increases for all races, the absolute wage gap between whites and Africans increased by 27.89 percent between 1972 and 1973.[6]

In 1975 three American corporations – Kennecott Copper, Texaco, and Standard Oil of California – announced intentions of investing a total of $309 million in South Africa, more than one-fourth of all present U.S. investment. This "CIC Brief" reviews the history of the companies' operations in South Africa and examines the potential impact of their new investment. Such an examination is especially important in light of the present situation in South Africa and the military realities of the region.

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The Reality of South Africa

The quotations at the top of the page summarize the directions of the South African government. Africans are needed, but they are there solely to serve the needs of the white man. Whatever laws (see ITEM I) or other forces are necessary will be used to maintain the system of white control.

South Africa's rulers are also practical people. Despite enormous efforts to increase the white birth rate and white immigration, Africans play an ever more important role in the economy of the country, both as part of the labor force and as part of the South African market. To make this possible, some "petty apartheid," or small signs of racial discrimination, have to disappear, and the purchasing power of Africans has to be increased through education and slight increases in wages. However, in absolute terms, white income is still increasing

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much faster than African income. As the mining magnate Harry Oppenheimer recently said, "Massive increases in Bantu wages . . . will never take place at the expense of the white worker."[7]

The Investment Context

The goals of the South African economy can be stated as follows. By a highly capitalist orientation encouraging profit maximization and rapid capital-intensive industrialization, South Africa hopes: (a) to become self-sufficient in as many raw materials and industrial products as possible; (b) to obtain economic and military strength to prevent outside intervention in its domestic affairs; (c) to provide a continued increase in the standard of living for whites.

The South African government's ten-page advertisement in the *New York Times* of February 22, 1976, "Why So Many Invest in South Africa," provides a full statement of this position.[8] According to the ad, South Africa has a "more capitalistically oriented atmosphere. . . . Crippling strikes and serious internal disorders are virtually non-existent." South Africa's campaign for more foreign investment, despite an already booming economy, seems to spring from an intense desire to legitimate the existence of "this controversial and much maligned country." South Africa is also experiencing increasing isolation and hostility on its borders as a result of the independence of Mozambique and Angola, and because of increased military activity in Rhodesia.

The Corporate Argument and the Critic's Response

Corporations argue that they will significantly benefit the African populations by their investments. It is true that more jobs may become available for Africans, and such investments may increase income for both whites and Africans. Significant necessary natural resources for both the South African and world markets are developed, frequently providing a new spurt of growth for the corporation involved. U.S. investment in South Africa for 1973 was estimated at $1.24 billion (book value). Earnings and reinvested earnings for 1973 – exceeding one-third of the original investment – were $462 million.[9]

To date, however, serious efforts by foreign corporations to increase African wages have had little overall effect on the economic well-being of blacks. In fact the latest spurt of foreign investment from 1973 to 1975 has coincided with a significant increase in the wealth of whites in most sectors of the South African economy (see ITEM II), further increasing the wage gap between Africans and whites. Even then, most of the increases in African wages were the result of serious labor unrest throughout the country in 1973 and 1974.

The argument that economic growth will produce social change was challenged in a strong statement in March 1976 by Gatsha Buthelezi, Chief of the Kwazulu Bantustan, and church leader Beyers Naude.

> If the homelands exist to make labour available to maintain the cash economy and standard of living of the elite (Black, White or both) and to establish an economic buffer zone of homeland economies to protect the central economy and provide benefits for the favoured few, we can come to only one conclusion. Foreign investment in the central economy is devoid of all morality.
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> It is equally evident that attempts to increase the responsibility of employers and investors within this system will do nothing to produce the radical redistribution of wealth and power which are the essential prerequisites of justice and peace. . . .Progress depends on realising the priorities and power locked in the wisdom of the Black man who has suffered and will survive to make the real contribution to the new society which he is seeking.

ITEM I

The Laws of South Africa

1. The Group Areas Act, No. 36 of 1966. Under the act, South Africa is divided geographically into areas in which only persons of the same race can live or own land (to the exclusion of persons of other races).

2. Proclamation No. 329, 1957, pursuant to the Group Areas Act, prohibits a black from being employed as a "chargehand, executive, professional, technical or administrative employee, manager or supervisor" in a white area, with certain limited exceptions.

3. The Bantu Labour (Settlement of Disputes) Act, No. 48 of 1953 as amended by the Bantu Labour Relations Amendment Act, No. 70 of 1973, prevents strikes by blacks except under certain very limited conditions.

4. The Bantu (Abolition of Passes and Coordination of Documents) Act, No. 57 of 1952, provides for the carrying of "reference books" (or "passes") by all blacks. These "pass books" contain particulars of contracts of service or employment. Non-possession and non-production of the document upon the demand of a policeman are crimes.

I. Kennecott Copper Corporation

In 1975, Kennecott announced its first investment in South Africa of $120 million to develop extensive titanium and iron-bearing sands on the northeast coast of South Africa. Kennecott is the largest U.S. producer of copper and is well known for its reluctance to divest itself, by Securities and Exchange Commission order, of ownership in the largest supplier of coal – Peabody Coal Company.

– Kennecott's partners.

Kennecott is investing in South Africa through its two-thirds owned Canadian subsidiary, Quebec Iron and Titanium Corporation (Q.I.T.). The remaining one-third of Q.I.T. is owned by Gulf & Western. Q.I.T. mines ilmenite ore in Canada to be used as follows: steel production (713,000 tons in 1974); titanium pigment (831,000 tons in 1974); and iron (597,000 tons). Because of South African financing laws and the tremendous interest by the South African government in this investment, Kennecott will only provide 39.3 percent of the needed capital. The remainder is being split equally between the South African government's Industrial Development Corporation (IDC) and the Union Corporation, which will control Q.I.T.'s operation and the final uses of its smelter production.

IDC is meant to be the government's "guiding hand in the industrial development of South Africa."[10] Its aims are to encourage "expansion, better organization and the more efficient carrying out" of industrial development. The IDC "has always frankly acknowledged the reward of free enterprise to be profit" and encourages capital-intensive industries. The other South African participant, the Union Corporation, is a large, privately owned, white mining corporation.

– Uses of titanium.

Titanium is a versatile metal with many unusual qualities. As stated in a major weekly South African government paper:

> The titanium deposit could yield annually more metal than the entire world at present uses. . . . Titanium is the "metal of tomorrow." Just as the world went through the iron age, and then developed steel, and then aluminum, so it is about to enter the age of titanium, a dense, hard, almost non-corrosive metal.[11]

Kennecott and Q.I.T. argue that their investment is nearly exclusively intended for export to satisfy increasing demands for titanium dioxide pigments for use in paints, paper, plastics and rubber. There is no doubt this will be a major purpose of the investment from Kennecott's point of view.

However, the South African government sees the development of this mine in a broader context. The entry under "titanium" in the South African government's 1974 official yearbook reads in part as follows.

> The main use of titanium metal is in the manufacture of aircraft engines and bodies. Some aircraft have as much as 40 percent of their mass made up of titanium. It is also used in tubing for industrial purposes. The prospects are bright in view of the increasing demand for titanium in industry.[12]

– Contribution to African development.

The Pretoria News in April 1975 carried the following report.

> A strip of coast excised from Kwazulu only last month has $4.5 billion worth of titanium in its sand dunes, according to a spokesman for the Industrial Development Corporation. . . .The strip of coast was excised for "development" purposes and had nothing to do with the titanium deposit.[13]

Kennecott and Q.I.T. have both acknowledged that the land has been taken from the Kwazulu Bantustan. To provide partial compensation, the companies are intending to pay the Bantu Trust Corporation $3.9 million per year in royalties. Nevertheless, from the very beginning, Kennecott's cooperation with the IDC indicates that its interest in Africans is minimal.

In fact, the entire investment will only result in available jobs for approximately 600 African employees, and obviously none of these will be at management level. These Africans will be employed primarily in the smelter since the mining operation, controlled by the IDC, will be highly capital intensive.

Church representatives have requested that Q.I.T. disclose any plans for training and upgrading of black workers, including wage ranges and benefits. At present management has no such plans and can give no indication of what its labor practices will be. In response the church investors have alleged that the South African government, as Kennecott's partner, will undoubtedly apply its racist apartheid laws and regulations.

– Other sources of titanium.

Titanium is the fourth most plentiful metal on earth. India has one of the largest resources of ilmenite in the world, already being used for the manufacture of titanium dioxide paint, and in refined form for arc-welding electrodes.[14] Kennecott could easily go to India or to Sierra Leone and Thailand, where similar proven resources of ilmenite exist. Although in some locations beaches are inaccessible to corporations because of environmental regulations or private ownership, there seem to be few reasons for Kennecott to go to South Africa, except that the South African government makes it extraordinarily attractive.

II. Caltex Oil

In contrast to Kennecott, Caltex, owned equally by Texaco and Standard Oil of California, has a relatively long presence in South Africa. Its last major expansion effort was begun in 1970 with a $21 million refinery building program and substantial investments in shopping and office centers throughout South Africa. Caltex presently has about 21 percent of the South African market for the refining of crude oil, and the company reported a total investment of $100 million in 1972. Its recently announced expansion of $134 million to increase South Africa's refinery capacity is therefore an enormous step in bolstering the South African economy.

– Reasons for the expansion.

South Africa has no oil, the one essential raw material for both the vital transportation sector and the chemical industry. With recent significant price increases and the oil boycott against South Africa sponsored by the Organization of African Unity in 1973, the South African government has been faced with enormous balance of payments difficulties.[15] The government has already decided to build a large oil-from-coal plant to be completed by 1980.[16] It has also carefully courted the multinational corporations on whose sources of oil (Iran) and tankers the country depends. This doubling of refinery expansion by Caltex therefore seems destined to assist the South African government's political, economic, and military purposes as well. In fact the company itself has invoked South Africa's official Secrets Act (which refers to privileged "national security" information) to prevent disclosure of what Caltex is supplying to the South African government.[17] Thus extensive support for South Africa's invasion of Angola, its illegal occupation of Namibia, and repression of blacks at home is the result. As Standard Oil of California admits:

> Frankly . . . it would be a crime under South Africa's law were Caltex South Africa to undertake a commitment to not supply petroleum products to the Government of South Africa, whether for use by the South African military or any other branch of the South African government.[18]

ITEM II

Average Monthly Per Capita Wages in South Africa (R 1.00 = $1.15)

Sector		Whites	Africans	Wage Gap
Mining and quarrying	1975	R 598	R 67	R 531
	1973	R 405	R 27	R 388
Manufacturing	1975	R 486	R 100	R 386
	1973	R 376	R 67	R 310
Construction	1975	R 472	R 95	R 377
	1973	R 376	R 67	R 310

Source: *Rand Daily Mail*, Johannesburg, August 9, 1975. *Financial Mail*, Johannesburg, February 21, 1975.

Finally, church critics have also opposed the Caltex expansion on the grounds that it may attract further foreign investment, and it will provide additional petroleum for shipment to Rhodesia in defiance of United Nations' economic sanctions.

– Impact on African development.

Caltex's operations are increasingly capital intensive. The numbers of Africans employed by Caltex fell by more than half, from 776 in 1962 to 394 in 1972. They also fell as a proportion of the company's total labor force, from 32 percent to 22 percent, while white employees increased their predominance from 56.5 percent to 66 percent.[19] Caltex has said that "the reduction was caused by increased productivity and by automation."[20] Africans have no protection from such lay-offs, since both Caltex and the South African government have consistently opposed labor unions for Africans. Automation also reduces the threat of strikes by Africans objecting to low wages and bad working conditions. It is therefore doubtful that this new investment will significantly improve living standards for Africans. (A more extensive paper on Caltex and Shell in South Africa is available from ICCR for $1.00.)

Conclusion

The general pattern of investment by global corporations in South Africa can be characterized as follows:

(a) a technology transfer of capital-intensive methods allowing for greater efficiency and less employment of unskilled labor.

(b) initial production aimed at the corporation's traditional export markets or for local government consumption. One result of exports would be to improve the South African balance of payments, thus facilitating the purchase of necessary strategic imports.

(c) cultivation of local markets. At all times the aim of the corporation is to maintain growth and constantly to increase its share of the market and profits relative to other firms. Anything that potentially impedes this growth – African unions, political instability, and high taxation – will of course limit the attractiveness of South Africa for profit maximization.

The South African government provides incentives to attract and keep foreign investors. Through the Industrial Development Corporation, it allows significant tax write-offs for plant construction as well as very low corporate taxes.

– The implications of investment growth for the United States.

This quantum leap in U.S. investments in South Africa may also have serious implications for future U.S. government participation in the southern African situation. Since the independence of Mozambique and Angola with their anti-colonial stands, there have been increasing skirmishes on the South African and Rhodesian borders with African guerrilla forces. The whites' fear, generated particularly by South Africa's debacle in Angola and compounded by increasing African political activity within South Africa, has resulted in an emphasis on looking to the outside world for support. As South Africa claimed in its recent *New York Times* ad:

> Americans in general probably feel more at home in South Africa than almost anywhere else outside America. . . . Furthermore, South Africa has a strategic situation which may be the determinant of future global power shifts.[21]

These political and cultural arguments, combined with the persuasive voice of American corporations, become a powerful incentive to American government support of the South African regime. At this point in the history of southern Africa, huge investments by Kennecott and Caltex may provide the increased vested interest necessary to cement America's commitment to white South Africa against the majority African population. Certainly the white minority will view this investment as encouragement and support for the status quo. Corporations could go elsewhere in the developing world to obtain good returns on investment capital, and a delay of a few years in these investments may allow a radically new situation to develop in South Africa.

Notes

1. Quoted in Ruth First, et al., *The South African Connection,* Western Investment in Apartheid. London: Tempoe Smith, 1972, p. 41.

2. *The Manchester Guardian,* March 14, 1974.

3. W.F.J. Steenkamp, "Labour Policies for Growth during the Seventies," *South African Journal of Economics,* Vol. 39, 1971, p. 99.

4. *The Johannesburg Star,* August 26, 1972.

5. *Rand Daily Mail,* August 7, 1974.

6. *Financial Mail,* Johannesburg, February 4, 1974.

7. *Chamber of Mines Annual Report,* Johannesburg, 1974.

8. *New York Times,* Magazine Section, February 22, 1976, pp. 41-50.

9. U.S. Chamber of Commerce, *Survey of Current Business,* August, 1974.

10. *New York Times,* op. cit.

11. *South African Digest,* April 11, 1975.

12. *Official Yearbook of the Republic of South Africa, 1974.* Pretoria: Department of Information, Private Bag X152, p. 627.

13. Quoted in the *South African News,* April 8, 1975.

14. See for example C.N. Chari, "Light Metal Processing," Paper presented at *104th Annual Meeting, AIME,* New York, Plenum Press, 1975, pp. 353-362.

15. *Financial Times,* London, June 19, 1974.

16. *Financial Mail,* Johannesburg, June 27, July 18, 1975.

17. "A report on operations of an Affiliate and a Subsidiary of Texaco Inc. in the Republic of South Africa," *The Texaco Star,* No. 2, 1973.

18. Letter to Father Robert C.S. Powell, National Council of Churches, from D.N. Maytum, Standard Oil of California, December 19, 1975.

19. *The Texaco Star,* op. cit., Table B.

20. *Ibid.*

21. *New York Times,* op. cit., p. 41.

ITEM III

Shareholder Resolutions to Kennecott, Standard Oil of California, and Texaco

– Kennecott. On May 4 Kennecott shareholders will vote on whether the corporation should adopt the following policy position: "The corporation shall not, directly or through affiliates, invest in, plan for, or conduct any mining, smelting or refining operations in the Republic of South Africa or in Namibia (South West Africa) as a co-investor or in a joint venture with any agency of the South African Government and shall promptly terminate any such plans now underway."

The resolution to Kennecott was filed by the Christian Church (Disciples of Christ), the Congregation of the Passion, the Province of St. Joseph of the Capuchin Order, and the Sisters of Charity of Nazareth.

– Standard Oil of California and Texaco. Both corporations will be asked to establish a policy that neither the company nor its affiliates will expand its operations in the Republic of South Africa. The resolution with SOCAL was filed by the United Methodist World Division, and the company's annual meeting will be on May 4. The Texaco proposal was sponsored by the Sisters of Charity of St. Vincent de Paul of New York and the United Methodist World Division. Texaco's annual meeting will be held on April 27.