

**SOUTH AFRICA'S
EXTERNAL ECONOMIC RELATIONS**

New Initiatives in a Changing Environment

by

MARGARET DOXEY

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INTRODUCTION

Although the pace of South Africa's economic progress since the second world war may not be comparable with the 'economic miracles' achieved by Japan and West Germany, it has been rapid, impressive and almost uninterrupted. The late 1960's were particularly prosperous and although inequalities of distribution are obvious, rising Gross National Product has brought higher standards of living to all sections of the population.¹

As a well-developed industrial country which has important mineral, agricultural and industrial products for export, and offers a growing market for a variety of sophisticated imports and a profitable and promising field for investment, South Africa figures prominently in the international economic system. It is the leading industrial country on the African continent and is the core area for the whole of Southern Africa. It is the object of this paper to examine South Africa's external economic relations with particular reference to this regional significance which, as a result of changing environmental factors, is in process of being strengthened. By way of introduction, it may be useful to indicate, very briefly, how the parameters of South African foreign policy have been modified over the past half-century.

The Union of South Africa was only four years old when the first world war began, and was still closely tied to the British Imperial connection. After the war, in which South African troops occupied German South-West Africa and took part in the East African campaign, the Union became a member of the League of Nations as a self-governing Dominion. Successive South African governments, like those of Canada and other 'old' Commonwealth countries, were concerned with asserting independence from Britain, although defence and trade links were still very strong. Foreign policy, as distinct from Commonwealth policy, was in its infancy; it was only in 1927 that the Prime Minister of South Africa took on the new, additional portfolio of Minister of External Affairs.

Administration of the former German colony of South-West Africa as a League of Nations 'C' Mandate gave the Union a taste of colonial experience, but there were to be no other extensions to South African territory. White Rhodesians voted in 1923 for status as a self-governing British colony in preference to joining the Union, and although South African governments consistently pressed for the incorporation of the three High Commission Territories of Basutoland, Bechuanaland and Swaziland, their efforts were destined to be unsuccessful and these territories remained under British protection.²

Internally, the non-white problem appeared less urgent than the continuing rivalry and economic and social inequality which accentuated and perpetuated the division of the white population into the two main language groups speaking Afrikaans and English. In the inter-war period Afrikaner nationalism was gaining ground; it favoured republican status for South Africa and a neutral posture in foreign relations. It was, therefore, a less than united country which went to war with Germany in 1939.

During the war South African troops participated in the major campaigns, and South Africa became an important link in Allied communications. Her ports offered vital repair and refreshment services for shipping and personnel; the Simonstown base was a key point in South Atlantic-

Indian Ocean strategy. As in the first world war, Field-Marshal Smuts played the role of a world statesman. By the end of the war, South Africa was a respected member of the Allied group of victorious nations and as late as 1950 she sent a contingent to fight in the United Nations Korean force. But signs of a new and hostile climate of outside opinion were already apparent in 1946 when permission to incorporate South-West Africa was refused by the new United Nations Organisation and the Indian government brought a motion to the General Assembly condemning South Africa's treatment of its Indian population. The beginning of the decolonization movement meant that the racial policy of South Africa became a dominant factor in its foreign relations.

Meanwhile, the fall of the Smuts government in 1948 initiated a period of unbroken rule for the National Party which has been notable for the government's unshakable determination to uphold white supremacy and to concede nothing to outside pressure. With a shrinking area of manoeuvrability, however, the new government's foreign policy became totally defensive in character.

THE INTERNATIONAL ISOLATION OF SOUTH AFRICA

From the outset, the United Nations provided a public forum in which South Africa's policies could be examined, criticized and condemned. The process of decolonization created a numerically formidable group of independent Asian and African States, pledged to achieve majority rule throughout the African continent. Working through the United Nations and other international organizations, the Afro-Asian 'bloc' gradually achieved South Africa's virtual isolation from regional and international co-operative activity, except in the important economic agencies in which Communist countries did not participate, namely the IMF, the World Bank and its offshoots and the GATT.

South Africa was denied participation in such specialized agencies as the ILO, FAO and the Economic Commission for Africa and on becoming a republic in 1961 she was obliged to leave the Commonwealth. A series of condemnatory resolutions passed by the U.N. General Assembly and Security Council culminated in 1964 in the recommendation by the latter body of an arms sales ban which was supported by all the Western Powers.³

To add to this disadvantageous and apparently worsening political position, South Africa was also in some temporary economic difficulty in the late 1950's. Doubts about the future led to a capital outflow which was exacerbated by the Sharpeville disturbances early in 1960; confidence was shaken and the foreign exchange reserves seriously depleted. It began to seem problematical whether the status quo could be maintained against winds of change which seemed to be reaching gale force.

In this situation, the range of foreign policy options open to the South African government was extremely limited. The external environment was not susceptible to alteration by South Africa, and if no adjustments were to be made to it, the most that could be achieved was a holding operation. There was inevitable uncertainty as to how long this could withstand increasing external pressure to induce, or possibly enforce a radical change of policy within the country.

RECENT CHANGES IN THE OPERATIONAL ENVIRONMENT

Since 1965, however, there have been significant changes in the operational environment confronting South Africa's foreign policy makers. These changes have been both external and internal, inter-reacting to provide some increased status and leverage and to reduce the extent of South Africa's isolation. It now seems clear that the image accepted a decade ago, of South Africa as a peripheral outpost of white authority on the edge of the continent which must soon topple under simultaneous and increasing external and internal pressure, needs modification. Indications are that the Republic has not only strengthened its capacity to survive in its present form, but is increasingly dominating the adjacent, subordinate region whose members have much to gain by tolerating the status quo in South Africa, and more to lose by challenging it. Their attitudes are the product of a realistic assessment of the political and economic environment, and may have nothing to do with ideological or moral values.

EXTERNAL FACTORS

In attempting to isolate the external factors and influences which have contributed to South Africa's improved position, it is difficult to judge what weight should be attached to each. Nevertheless, one of the most important was the realization that no economic sanctions of a **universal** nature were likely to be applied to the Republic. This was obvious from the deliberations and report of the Security Council's Expert Committee set up to study the feasibility of sanctions against South Africa which revealed a lack of consensus on the need for and value of sanctions in this case, and a disinclination on the part of South Africa's major western trading partners to embark on a costly and probably ineffective programme of economic deprivation as a means of influencing internal political development.⁴

Secondly, the declaration of independence (UDI) by the Smith regime in Rhodesia in November 1965 shifted the focus of world attention away from South Africa to what appeared to be an urgent crisis and a more vulnerable objective for international coercive action. As time passed and the Smith government consistently declined to settle on Britain's terms, while the country survived increasingly severe economic sanctions, two effects were noteworthy. In the first place, the value of external economic pressure as a means of inducing radical internal changes of policy lost credibility. In the second place, South Africa gained new responsibilities, but also enhanced status. Her various roles vis-à-vis Rhodesia — friend and protector, financial backer, supplier of petroleum and other essential goods, provider of transit routes for Rhodesian trade — all meant that the Republic moved into a key position. Some of these roles were formerly Britain's, but they are likely to remain South Africa's for the foreseeable future.

South African policy towards Rhodesia was backed by Portugal who also stood out against the rest of the United Nations and gave practical help to the Smith regime. Although neither government has extended official recognition to Rhodesia as an independent State, they both maintain close diplomatic relations with the Smith government and there is obviously continuing liaison on matters of common concern. By taking an officially 'neutral', but unofficially friendly stance, and continuing

'normal' trade, South Africa and Portugal have tested the strength of Commonwealth and United Nations sanctions against Rhodesia. Except for a blockade of the port of Beira, they have been unhindered in this course of action, and in spite of the establishment of a Security Council Sanctions Committee to check evasion of sanctions it seems doubtful whether effective pressure can be brought on South Africa to reverse its policy of non-cooperation.

A further development on the international scene was helpful to South Africa. In 1966, the case brought by Ethiopia and Liberia challenging South Africa's continued administration of South-West Africa was dismissed by a majority decision of the International Court of Justice.⁵ The subsequent General Assembly Resolution terminating the mandate and purporting to provide for the independence of 'Namibia' has, so far, proved a paper declaration which has done more to debase the coinage of Assembly resolutions than to change the political situation in South-West Africa.⁶

As far as the new independent States of Africa are concerned, there has been a loss of ideological and political momentum since 1965. Internal problems of nation-building absorb all available resources, while military take-overs, coups d'état, factional and tribal splits, and particularly the tragic Nigerian civil war have reduced the credibility of an African thrust southward to bring an end to white minority rule in southern Africa and may well have brought second thoughts, particularly in business and financial circles of influential western opinion, about the desirability of upsetting stable government in South Africa. The pan-African movement sustained a blow in the fall of Kwame Nkrumah; the OAU has had some successes in settling disputes between members, but has so far been defeated by the Nigerian problem. Meanwhile, although guerrilla warfare in Angola and Mozambique continues to absorb a large slice of Portugal's national budget (of which about 42 per cent is allocated to defence and security), there is little sign of an early abdication of Portuguese authority in these territories. In Rhodesia, incursions by 'freedom fighters' have been handled by South African and Rhodesian security forces working in unison; nor do these guerrilla elements appear to have received a marked degree of support from the local population. South African and Rhodesian African leaders in exile have shown the familiar tendency of refugees to quarrel bitterly among themselves, while there has been disillusionment with the extent of OAU financial assistance for the 'liberation movement'. A correspondent in *The Economist* asserted in May 1969 that of the OAU's 1968-69 liberation budget of £750,000, "only a fraction has been paid in, and most of that has been spent on travel and junketing by politicians and officials. Only four OAU States (Algeria, Ivory Coast, Tanzania and Zambia) have paid their liberation budget dues."⁷

Zambia occupies a key position adjacent to the white-ruled area of southern Africa, but her energies are devoted to preserving political stability and economic development, particularly as the disruption of former close links with Rhodesia since UDI have impelled her to embark on a costly and prolonged process of reorientation towards the north.⁸ Zambia is also vulnerable to reprisals from the south if a near-conflict situation developed.

There have also been changes in the constitutional and international status of some of South Africa's small neighbours. The break-up of the Central African Federation brought independence to Malawi (Nyasaland)

as well as to Zambia in 1964, and Malawi has become the first black African State to establish diplomatic relations with the Republic. Moreover, all three former High Commission Territories were granted full independence by Britain between 1966 and 1968. Lesotho (Basutoland), Botswana (Bechuanaland) and Swaziland have all joined the United Nations and the Commonwealth as full members. The issue of incorporation by South Africa had been dead since 1954 when the British government made it clear that independence would be granted in due course. Independence when it came meant the end of British authority, but it also meant that these small, poor and virtually undeveloped countries would inevitably gravitate towards the Republic.

Britain's influence in southern Africa, as in the world at large, has been steadily diminishing since the end of the second world war. Reduced defence commitments overseas, together with a continuing struggle to join the European Economic Community in the 1960's, point to a more distinct European role in the future. Sovereignty in Rhodesia has been shown to be a fiction. Serious economic difficulties, particularly as regards the external payments position, make a strong British foreign policy impossible, and obviously preclude any economic confrontation with South Africa. Even the Labour government of Mr. Wilson has been forced to make this clear, while the Conservatives are pledged to lift the arms sales ban if they are returned to power.⁹

The preoccupation of the United States with domestic problems, and on the world scene with South-East Asia and East-West relations, has reduced American political interest in Africa, which is also, at present, peripheral to the Soviet and Chinese spheres of primary interest. The only European power with a direct political stake in southern Africa is Portugal, and the new government of Dr. Caetano has initiated no changes in policy towards Angola and Mozambique.

Mention should also be made of the revived importance of the Cape Sea Route since the closing of the Suez Canal in 1967, and the permanent importance of this route for giant tankers carrying oil from the Middle and the Near East to the West.¹⁰

For all these reasons, the external challenge to South Africa's political system has perceptibly eased, while the withdrawal of British sovereignty and influence — part voluntary, part involuntary — has left a large area of southern Africa open to South African penetration.

INTERNAL FACTORS

Over the same period, there have been relevant changes within the Republic. African national political movements have been proscribed, there has been a diminution of revolutionary activity, and the government appears to be in full control of the country. Apartheid, or separate development, whatever one may think of it as a social system, is no longer experimental, but operating. The Transkei has been functioning for some years as the first of a number of planned Bantustans, enjoying limited self-government. Ovamboland in South-West Africa is now also at more or less the same stage of self-government and other "homelands" are at earlier stages of the same process. In the economic sphere, the Republic has gone from strength to strength. The expansion of gold mining since World War II contributed to the rapid development of secondary and tertiary industry, while other important minerals such as uranium, platinum,

chrome and copper are in international demand. The domestic market has grown by leaps and bounds; higher wages for the rapidly growing Bantu population has brought their current annual earnings to an estimated R1,200 million; by the end of the century it may have more than doubled.¹¹

Foreign investment is considerable, with over half emanating from Britain, but domestic sources are now more than adequate to support development. Over 90 per cent of private capital comes from inside South Africa and there is a growing volume of South African investment overseas. At the end of 1966, there was a total of R3,825 million of foreign investment in South Africa while South African investments overseas totalled R1,678 million.

Afrikaner insurance companies, banks and other institutions have become involved in the industrial life of the Republic and the Afrikaans-speaking section of the white population has become increasingly urbanized. It is interesting to observe that since the Republic was set up in 1961, old Anglo-Afrikaner rivalries within the white community have tended to become submerged in a common feeling of satisfaction with the State of South Africa — which is seen as peaceful and prosperous — and a common hostility to external criticism — which is seen as ill-founded, destructive and Communist-inspired. Consensus on the values to be defended means that the government has the backing of the white elite for any new initiatives in foreign policy which it feels able to take.¹² The non-white population has no direct influence over the formulation of foreign policy.

These changes in the operational environment presented a wider range of options to South African foreign policy makers which they did not fail to recognize. In place of the purely defensive, reactive foreign policy of the 1950's and early 1960's, the South African government is now essaying a more positive, initiatory policy towards its neighbours. The main thrust of this new policy, begun by Dr. Verwoerd and continued and developed by Mr. Vorster, is economic, meeting the obvious needs of the region, but it is contained in a careful diplomatic framework. As it seems likely that a pattern has been set which will continue to evolve during the next decade, it is judged worthy of closer analysis than it has yet received.

SOUTH AFRICA AS THE DOMINANT COMPONENT OF A REGIONAL SYSTEM

In the past ten or fifteen years there have been a number of studies of different areas of the world viewed as subordinate international State systems; Michael Brecher, Leonard Binder and I. William Zartman have been leading contributors in this field.¹³ Professor Zartman's analysis of Africa as a subordinate system did not include the tip of the Continent, which is clearly in a different category from East, West and North Africa. Unlike these areas, southern Africa cannot be described as a sub-system in the continental context; the question therefore arises whether it has a specific character and pattern of its own which endows it, or is showing signs of endowing it with systemic properties.

Any attempt to define the status of the southern part of Africa must begin by identifying its distinguishing features. Geographically, the region forms a solid bloc of territory. Stretching from west to east it takes in Angola, South-West Africa, Botswana, Rhodesia and Mozambique, with Malawi, Lesotho and Swaziland enclosed within its limits and South Africa

providing the southern bastion. Until recently, Zambia was part of the political and economic system, but politically and ideologically at the present time it must be considered as extra-regional, while economic links are being reduced. Angola and Mozambique, as Portuguese provinces, are also members of an extra-continental political system. Offshore, there is the Malagasy Republic, part of the Francophone group of independent States, yet in a category of its own. As yet it has few links with Southern Africa. In all, the region with which we are concerned covers an area of more than two million square miles, with a total population of some 40 million people.

South Africa is undoubtedly the dominant component in political and economic terms, but there are a number of other units. Four of them enjoy formal sovereignty: Botswana, Lesotho, Malawi and Swaziland, and these countries are also Commonwealth, United Nations and OAU members which means they have political links with three other international systems. In addition, there are four territories which are not recognized as sovereign. Angola and Mozambique qualify as overseas provinces of Portugal; South-West Africa is effectively part of the Republic (despite United Nations wishes); Rhodesia, a self-styled independent entity with effective self-government and *de facto* recognition by South Africa and Portugal, is unrecognized and ostracized by the rest of the world and wholly dependent on regional support. South Africa, as the 'core' area of the region has an obvious interest in establishing a regional identity which distinguishes it from the rest of Africa in positive, and not merely negative terms. Portugal, too, must identify Angola and Mozambique as part of the Southern African complex, particularly from the defence and communications aspects, for as long as she wishes to retain these provinces under her control. Even if they achieved independence, established ties and patterns would be hard to break. It would seem that even the most ardent protagonist of majority rule could not deny the integrative potential of southern Africa. As noted earlier, however, the tendency since World War II has been to view South Africa, Rhodesia and the Portuguese territories as political anachronisms; the last redoubts of white minority rule which would soon be eliminated. It is suggested here that it is impossible to put a time limit to the duration of white minority rule, and it may be more accurate to view the region as integrating rather than disintegrating. This means that the dominant unit, South Africa, will be able to withstand pressure for change more successfully and will enhance its survival capability. Long-term predictions are out of the question in international politics, but South Africa's hegemonial position is unlikely to be challenged by weaker elements within the system as long as this position is productive of perceived benefits for them. The outcome is likely to be self-identification of their subordinate status by South Africa's small neighbours. No alternative status is available, and acceptance of this situation enables them to exert certain counter-influences, albeit of a weak character. Any hegemonial position which recognizes the formal sovereignty of subordinate units must be carefully operated as it will be highly sensitive to charges of 'imperialism' and 'neo-colonialism'.¹⁴ South Africa would obviously be exceptionally vulnerable to such charges, and must tread delicately indeed.

In seeking to pursue 'outward' goals of foreign economic policy, the proximate area offers the most promising opportunities, besides having

strategic importance. Intra-regional links will form the subject of the next section of this paper, while economic links with the rest of the world will be considered later.

INTRA-REGIONAL LINKS

The emphasis which has been placed on new policy options available to the South African government should not be allowed to obscure the fact that many of the economic links between South Africa and neighbouring territories are long-established and date from the early days of South African mining development. The need for labour to work on the Rand gold mines led to recruiting arrangements with the Portuguese authorities before the end of the nineteenth century, and the supply of contract labour from Mozambique has continued to the present day. As a quid pro quo, a proportion of transit traffic for the Reef area is handled by the port of Lourenço Marques and connecting railroads.

Migrant workers from Lesotho and Botswana are also recruited on a contract basis for work on South African gold, diamond and coal mines, and a great many others find employment in agriculture, industry and commerce inside the borders of the Republic. It has been estimated that over one half of the adult male population is absent from Lesotho in South Africa at any one time. South Africa has, therefore, traditionally provided employment for Africans throughout the region, and the use of non-South African labour on mines and farms meant the consolidation of the system of migrant labour over the whole area.

In the past, there was movement of South African skilled labour and managerial personnel to the copper-belt which is now part of Zambia, while white South Africans and Rhodesians in the skilled trades and professions have moved between the two countries, and indeed throughout the region without difficulty.

There is also considerable intra-regional trade. Angola and Mozambique trade mainly with metropolitan Portugal, where they enjoy substantial tariff preferences, but there is a small trade with South Africa. Exports from Mozambique are almost wholly made up of raw materials and agricultural products, while Angola has an important export trade in diamonds. Angolan oil, which is now being produced in the Cabinda area, may become important in making up the only serious mineral deficiency of the region.

South Africa provides an important market for the primary produce of her four small independent neighbours; in return, she is the obvious and most convenient source of supply of manufactures, fertilizer, machinery and other equipment. Her proximity and knowledge of local wants and conditions are considerable advantages. A trade agreement was concluded with Malawi in 1967, providing for duty free import to South Africa of essential oils, unmanufactured tobacco and certain other commodities, and preferential rates for other Malawi exports. Malawi continues to be dependent on imports of foodstuffs from Rhodesia, and has stated its inability to observe U.N. policy on sanctions for this reason.

The case of Rhodesia is particularly interesting. Since UDI, the economy has become more dependent on South Africa and Mozambique which serve as entrepôts for Rhodesian exports and imports. Petroleum is a vital import, while it seems likely that Rhodesian minerals, such as asbestos, chrome and copper are being exported via South Africa. Britain's

former dominant position in Rhodesian trade has been eliminated, while Zambia is now obtaining from South Africa goods which she was accustomed to import from Rhodesia. But in certain respects it would seem that the Rhodesian economy has been strengthened by sanctions. Farming activities have been diversified, which means that reliance on tobacco has been reduced, while import substitution has led to a general expansion of secondary industry. Some of this output is competitive with South African industry, and it appears that the freedom of access to the South African market which Rhodesian products have enjoyed have been "costly to the Republic's clothing, shoe, travel goods, electrical and furniture industries."¹⁵ There is a trade agreement between the two countries, but since UDI neither government has published detailed trade figures.

One of the most interesting effects of international sanctions in this context is that they have driven a wedge between Rhodesia and Zambia; whereas Rhodesia has been integrated tightly into the Southern African region, Zambia has been impelled to consider closer economic integration with East Africa.

No details of South Africa's trade with the rest of Africa are now disclosed by the government and this secrecy, in conjunction with the non-availability of Rhodesian statistics, makes accurate analysis of the regional and continental trade situation impossible. It is important that the Republic should continue to export more to neighbouring countries and to countries further north, not only because her expanding industries like those in Rhodesia, need markets for their products, but because the role of gold in the South African balance of payments is likely to shrink progressively in the future. This problem is discussed more fully in the next section.

Trade figures for Lesotho, Botswana and Swaziland are included in the statistics for the Republic; their trade is mainly with South Africa, except for Swaziland which exports iron ore to Japan.

Communications form an important element in providing a basis for intra-regional activity, and here southern Africa is better served than other parts of the African continent, although there are still serious deficiencies, particularly in the former High Commission Territories. The rail system linking the interior to the main ports (Beira, Lourenço Marques, Durban, Port Elizabeth, East London and Cape Town) needs extension and some work is in progress. A link between Malawi and Nacala in Mozambique is currently under construction and a connecting link between Malawi and Rhodesia is planned. Road and air links are also being developed, and all these projects are of great importance to the landlocked territories which have no access to the sea. Zambia was formerly part of the communications network, but now road, rail and air links with Rhodesia have been disrupted; copper is being sent out on the Benguela Railway to Lobito and the northern road to Dar es Salaam is under heavy use. A projected railway linking Tanzania and Zambia is being surveyed by Chinese engineers, though it is doubtful whether the traffic would make it an economic proposition.

There is obvious scope for planned development and exploitation of resources on a co-operative regional basis, and here South Africa with capital and expertise available can be expected to play an increasingly important role. The major resource problem throughout the area is water, and several large-scale projects are to be undertaken which will conserve this scarce commodity and also provide hydro-electric power.

Agreement on the Oxbow scheme, which had been under consideration for more than a decade, was finally reached by the South African and Lesotho governments in March 1968. It involves their co-operation in building a high dam in the northern highlands of Lesotho; South Africa will obtain much needed additional water supplies for the heavily populated and industrialized Reef area, while Lesotho will earn revenue and also obtain electric power. The Kunene project on the borders of Angola and South-West Africa will bring water and power to the northern part of South West, while the Orange River project is a purely South African water conservation scheme encompassing hydro-electric and irrigation developments which will benefit a large area of the Cape Province and part of the Free State.

Finally there is the vast Cabora Bassa project in Mozambique, for which first-stage contracts have already been awarded. South Africa's electricity requirements have hitherto been met mainly by thermal power stations situated on the abundant coal fields but thermal power is a heavy consumer of water and hydro-electric power is a desirable supplement. The Cabora Bassa scheme involves building a second dam on the Zambezi, already dammed at Kariba to supply power to Rhodesia and Zambia. The new dam will be the largest on the African continent. South Africa has guaranteed that she will buy a proportion of the output, which will be cheaper than domestically generated power and will conserve the use of water. In relying on an outside source for energy, South Africa is taking a step away from her self-sufficiency policy and becoming involved in co-operative regional enterprise as a consumer. Malawi and Mozambique already share electricity supplies.

Exploitation of the rich natural resources of the area is also making progress. Timber for wood pulp and iron ore mining in Swaziland are already profitable enterprises as a result of outside assistance, much of which came from South Africa. A rail link was completed in the mid-1960's which enabled iron to be taken from the Swaziland mining area to the coast from where it is shipped to Japan. South African interests have invested heavily in the Rhodesian nickel project at Bindura and advice and assistance to Lesotho is currently being given by a team led by Dr. Anton Rupert, the South African industrialist. The discovery of copper, nickel and diamonds in Botswana augurs well for new economic activity in that portion of the region, while bauxite deposits are being surveyed in Malawi. South Africa has made loans to Malawi for the first stage of the building of a new capital at Lilongwe and for the construction of the Nacala rail link.

Administratively, in the economic sphere, there are close links between South Africa and the former High Commission Territories. The Rand is the official currency in all three countries, and they have a joint customs union with South Africa which dates from 1910 and is the major source of revenue for their exchequers. South Africa collects all duties at ports of entry and allocates a fixed percentage of gross customs revenue to her small neighbours.

EXTRA-REGIONAL LINKS

Turning to South Africa's economic relations with the rest of the world, it is clear that the major goals of her economic foreign policy must be to improve her own economic condition and to reap such political

benefits from external relationships as may be obtainable. A higher price for gold, increased exports, and guaranteed supplies of essential imports (particularly petroleum) are all fixed objectives; in addition, foreign policy must be harmonized with the internal needs of the economy.

South Africa produces three-quarters of total world gold production outside the Soviet Union (whose production and gold stocks are no more than guesstimates) and it has been the development of the Far West Rand and Orange Free State gold fields which has stimulated the whole economy in its dynamic progress since the second world war. For this reason, it has been the consistent aim of the South African government to obtain an increase in the official price of gold which was fixed by the Bretton Woods agreements at \$35.00 per oz. A higher price would benefit South Africa's balance of payments and increase the profitability of the gold mines, particularly those which are only marginally profitable.

It would be impossible in a paper of this length to give detailed accounts either of South Africa's quest for a higher gold price or of the fluctuating fortunes of the international gold market. At times, in the last few years, there has been a measure of near chaos in the international monetary field, with one major currency after another in serious trouble. British devaluation of the pound sterling in November 1967 was followed in 1968 by further crises of confidence and there were doubts whether the U.S. dollar could survive. A fantastic run on gold drove the unofficial price to unprecedented heights; in March 1968 a two-tier price system was introduced in an attempt to restore some semblance of order. The central banks of leading western countries agreed not to buy any new gold; this introduced a virtual freeze on South African gold sales, as if large quantities were sold on the free market, the premium price would fall. This is what the central bankers hoped would happen, but it was a difficult position for South Africa who relies on gold sales to balance her trade deficit. Most of her reserves were held in gold.

The full effects of the two-tier system, which is to be linked with a new system of Special Drawing Rights from the IMF are still obscure, and the latest devaluation of the French franc in August 1969 may further complicate the situation. As far as South Africa is concerned, there is hope of a compromise being worked out which would allow gold sales at the official and the free price. Capital inflows have assisted the overall balance of payments position, but exports were hit by British devaluation and a foreign exchange shortage made it necessary to have recourse to external loans. The South African government raised loans from Switzerland and West Germany and in 1969 drew \$66 million (in U.S. dollars and Japanese yen) from the IMF. If these drawings are repaid in gold, which South Africa claims is legally permissible, this will be tantamount to selling new gold at \$35 per oz. without affecting the free market price.

There is also evidence that South Africa is selling gold irregularly in Zurich, where a gold pool is operated by three leading Swiss banks, but a measure of secrecy surrounds these operations. The Portuguese central bank may also have bought some South African gold.

In the wider field of trade and investment, the picture is one of minimal links with Communist countries, but expanding connections with North America, Europe and Japan. Apart from the vital role which gold plays as a commodity export, agricultural products, foodstuffs, metals and minerals and manufactures are the major South African exports. 50 per cent

of imports by value consist of metals and metal manufactures, machinery and vehicles. Crude petroleum is also an important item. Internal production by the SASOL oil from coal plant only meets about eight per cent of petroleum needs, and although a second plant is planned, and some oil may be available from Cabinda (in Angola), South Africa will remain dependent on distant sources. Intensive and expensive prospecting on and off shore is in progress, but so far oil has not been found in workable quantities in the Republic.

Heavy emphasis on internal and external security means that South Africa is a good customer for military hardware for any country which does not observe the United Nations embargo. From complaints voiced at the United Nations, it would seem that France is now the major supplier.¹⁶

The following table shows South Africa's main trading partners and reveals some interesting trends. Britain is both South Africa's best customer for exports and the major supplier of imports. 24 per cent of South Africa's total imports originated in Britain in 1968, while 32 per cent of total exports went to the British market. The United States holds second place as a supplier of imports, but in 1967-1968 Japan became South Africa's second most important customer. A very sharp increase in the value of South African exports to Japan over the years 1966-1968 is apparent from the table: from R82.8 million in 1966 to R204.4 million in 1968, this latter figure representing 15 per cent of total South African exports in that year. The United States took third place as a market for South African exports in 1968, but West Germany's imports from the Republic were almost of the same value and this is shown as a steadily growing market. Japan is in the fourth place as a source of imports. It is interesting to note the figures for the European Economic Community as a whole: South African imports from the E.E.C. were R461.5 million in 1968 (exceeding the value of imports from Britain by R12 million); exports to the E.E.C., on the other hand, were R265.0 million. Although this represented an increase over the value of exports in the previous year of nearly R23 million, it is less than 50 per cent of the values of exports to Britain which were R475.7 million in 1968.

Other smaller markets which show steady expansion are those of Canada, Hong Kong, Australia and Spain; imports from these areas tended to increase noticeably in 1967, but declined somewhat in 1968.

In spite of the fact that many independent African States officially boycott all dealings with the Republic of South Africa, recorded figures show a steady increase in trade until 1968 when imports fell, though exports continued to rise in value. Some of this increased trade would be accounted for by trade with Rhodesia — and with Zambia.

**SOUTH AFRICA'S EXTERNAL TRADE —
MAJOR TRADING PARTNERS**

(Value in Rand million)*

A. IMPORTS

	1964	1965	1966	1967	1968
Total	1,539.9	1,756.4	1,645.5	1,918.0	1,880.5
Britain	437.3	494.5	448.9	497.1	449.5
U.S.A.	292.0	330.9	291.3	322.6	332.8
West Germany	165.4	191.4	176.0	231.6	253.8
Japan	81.4	100.1	90.1	116.0	122.7
Italy	46.5	70.0	51.3	70.8	78.0
France	41.2	46.9	41.2	53.8	67.0
Canada	46.6	49.7	50.7	57.2	44.5
Netherlands	36.7	37.4	41.5	54.2	42.2
Australia	16.1	18.8	22.1	31.1	28.1
Hong Kong	9.0	11.6	7.9	10.1	12.3
Spain	2.3	3.6	4.7	5.1	6.0
Africa	90.1	108.9	128.3	141.5	120.4

B. EXPORTS†

	1964	1965	1966	1967	1968
Total	957.3	1,060.9	1,205.5	1,356.0	1,507.3
Britain	301.7	357.8	403.6	310.2	475.7
Japan	84.4	76.1	82.8	175.0	204.4
U.S.A.	82.6	100.2	136.7	107.6	104.4
West Germany	57.8	55.7	68.9	80.8	101.3
Belgium	36.3	46.6	54.8	59.0	52.0
Italy	39.8	37.6	43.6	49.3	43.0
France	36.4	37.2	39.1	30.9	37.5
Canada	15.1	16.0	20.0	21.5	24.3
Hong Kong	11.6	10.7	12.9	15.2	15.4
Spain	8.5	9.7	11.7	13.0	14.6
Australia	12.0	11.2	9.7	12.0	13.1
Africa	113.9	147.1	196.3	225.6	249.0

† exports (f.o.b.) exclude gold bullion sales

* R1 = U.S. \$1.40.

Sources: U.N. Yearbook of International Trade Statistics;
I.M.F./I.B.R.D. Direction of World Trade.

As an investment prospect, South Africa is attractive. Rich mineral resources of platinum, copper, zinc, etc. await development while industry continuously diversifies and expands. The continuation of white rule appears to guarantee stability and security; there is a highly developed and efficient banking and monetary system, well-regulated share and money markets, admirable official and private sources of statistical information, and the advantage of a shared language with the rest of the English-speaking world. In addition there are 'old' Commonwealth links; personal kinship relations and long established business connections.

South African whites are highly investment-conscious and the excessive degree of liquidity within the country meant that a plethora of local funds were available for investment bringing a potential inflationary situation. The relaxation of exchange control in June 1969 means that additional South African funds may now be available for overseas investment, subject to approval by the South African Reserve Bank of individual applications. Reference has already been made to the volume of foreign investment in South Africa, which at the end of 1966 totalled nearly R4,000 million.

In communications, South Africa has a good position for extra-regional as well as intra-regional links. Strategically, in both world wars it was a

focal point of naval and maritime activity, and although the changed conditions of modern warfare make a repetition of this situation unlikely, the Cape Route is still an important commercial artery. Should a giant tanker port be built by the Republic, where repairs could be carried out, the significance of this route would be enhanced. Air links with the rest of the world are well established, although deviations from direct routes have had to be made as a result of African States to the north imposing bans on refuelling and overflying. A weekly service from New York to Johannesburg via Rio de Janeiro was inaugurated in the summer of 1969; a regular service to Australia has been in operation for many years, and South Africa is linked with all parts of the world by international air lines. A submarine cable link to Lisbon costing R43 million was completed and opened in 1969. It is 6,000 miles in length and will eventually connect with planned cables from Lisbon to Britain and the United States.

Finally, mention should be made of the tourist trade. South Africa has many and diverse attractions for cruises and inland tours and safaris. There is scope for considerable development in the whole southern African region as more frequent and less costly charter flights and package tours are organized. Tourism earns foreign exchange and for South Africa helps to promote the image of a peaceful country which is important in creating a favourable impression on business and financial leaders in the rest of the world.

CONCLUSIONS

In promoting trade, investment and tourism, the harmonious development of the whole southern African region can be of great assistance to South Africa and to her neighbours and can go some way to offset the image of a beleaguered citadel of white racists doomed to extinction. How far this image can be corrected will also depend on future internal developments in South Africa. Prediction is notoriously hazardous, for any new or unexpected factor, or combination of factors, can act as a catalyst, transforming the scene in a short period of time. Nevertheless, the Republic of South Africa has chalked up a few gains on the foreign policy front in the past few years and may be able to consolidate and even improve her position in the coming decade. The opportunities grasped have been primarily economic, but the pay-offs from a successful foreign economic policy are not confined to this sphere. A strong economic situation, domestically, and a favourable environment for action externally, can make possible a foreign policy which is intentionally designed to give the maximum political or strategic advantage; even where these considerations are not paramount, they are unlikely to be overlooked.

If certain conditions are fulfilled, it is suggested that the extension of South Africa's links with the adjacent, subordinate area of southern Africa can be beneficial for the Republic's future foreign relations. If aid and technical cooperation, without strings, continue to be offered to and accepted by neighbouring countries, the result will be to strengthen the economic development of the whole region and there will be tangible and intangible dividends for South Africa.

It may be contended that Angola and Mozambique must eventually become independent from Portugal and that African governments in these territories will be hostile to South Africa, but this is not a foregone conclusion. It may also be said that Malawi and the former High Commission

territories are no more than super-Bantustans, but, on the other hand, their non-viability as "incubator nations"¹⁷ does not make them unique among ex-colonies. If the metaphor may be pressed, it must be acknowledged that they suffered pre-natal neglect and consequently the work of the midwife (in this case Britain) needs to be supplemented by professional nursing services.

It may also be contended that Rhodesia cannot continue to withstand sanctions without a serious deterioration of her economic position and will become an increasing burden on South Africa. It is true that the South African government might well have preferred Rhodesia to settle with Britain; this would have solved the problem of disputed status, which has undesirable political and diplomatic connotations, and brought sanctions to an end. On the other hand, South Africa cannot afford to let sanctions against Rhodesia succeed, and is not prepared to withdraw support from the Rhodesian government or to force its hand.

The extreme view could be propounded, that the whole 'outward' policy is a monumental deception, made possible by the closed decision-making system in South Africa where non-whites are powerless and whites follow the government blindly. The government is thus free from constraints to explain its policies and persuade the electorate to support them. This theory does not stand up to examination in regard to South Africa's external relations, not only because many South African whites need to be persuaded of the benefits of neighbourliness, but also because Malawi, Botswana, Lesotho and Swaziland are also members of the U.N. and Commonwealth systems where their voices can be heard and their votes counted, and where new criticism of South Africa could do immeasurable harm to her image. South Africa's actions in the proximate region are public, not private, and there is an inevitable feedback to wider political systems of which she and her neighbours are members. The emphasis must be on a zone of economic cooperation and not on a zone of political dominance.

It can only help South Africa if some of these neighbouring States begin to display signs of distinct economic progress during the next few years which can be directly attributed to South African investment, aid, expertise and co-operation. It is not entirely beyond the bounds of possibility that if this were the case, and the political independence of these little countries had not been obviously infringed, nor their internal policies overtly influenced, that the boundaries of the southern African economic system might be pushed outwards and northwards. African countries are all consumers, not producers of aid. International sources are limited and enthusiasm for aid-giving in the United States and the West, and in Communist countries, has shown a tendency to dwindle, not because needs are less but because there are doubts about its application and achievements, and increased claims on resources at home. The second UNCTAD conference held in 1968 at which there was a prolonged dispute over South African participation, was relatively unsuccessful. If South Africa came to be viewed as a satisfactory source of economic assistance, there could be a change in attitudes, at least on the practical, economic level.

Although Africans in the rest of Africa were successful in evicting all the colonial Powers except Portugal, they have not succeeded in mobilizing an effective assault on Rhodesia and South Africa which the white population regard as home territory and are prepared to defend. South

Africa is now in the strong position of being able to finance its own development and need not be beholden to outsiders. It can also spare some resources to help its neighbours, and the criterion should not always be direct economic benefit to South Africa. There is no reason why South Africa should not join in internationally sponsored schemes to bring progress in the area she dominates, as well as extending bilateral assistance. Not the least of the benefits accruing from South Africa's involvement in external aid programmes might be that South Africans would feel less isolated from world trends. They could come to feel that they are contributing in a constructive manner to the economic development of a very poor and backward region and fulfilling a useful role as a leader. To speculate on what effects this might have on future political development inside the country would be outside the scope of this paper.

NOTES AND REFERENCES

1. See S.A. Reserve Bank and S.A. Bureau of Census and Statistics *Bulletins of Statistics*. The overall Economic Development Programme for 1966-1970 considers the implications of a 5.5 per cent annual growth rate, which is about the average for the period 1959-1965.
2. See Lord Hailey: *The Republic of South Africa and the High Commission Territories*, 1963.
3. Security Council Resolutions S/5836 (7 Aug. 1963), S/5471 (4 Dec. 1963), S/5773 (18 June 1964). France and Britain in voting for the 1964 resolution stated that they would distinguish between arms for external defence and arms for internal suppression, but the Labour Government which took office in Britain in October 1964 decided to ban all arms sales to South Africa.
4. U.N. Document S/6210, 2 March 1965.
5. I.C.J. Reports: South-West Africa Cases (Second Phase) 1966.
6. General Assembly Resolution 2145 (XXI) 1966.
7. *The Economist*, 10 May 1969, p. 32.
8. In Barotseland, in the south of Zambia, there has been a measure of dissatisfaction with the rule of President Kaunda's U.N.I.P., particularly following a government ruling that tribesmen from this area could not seek work in South Africa. In the 1968 election the A.N.C. made gains in Barotseland. See *Africa Digest*, XVI: 1 Feb. 1969, p. 9.
9. Statement by Mr. Stewart, the Foreign Secretary, in the British House of Commons, 24 April 1968. See *Hansard (Commons)* Vol. 763, cols. 239-40. The French government has not observed the arms sales ban.
10. See Margaret Doxey: "The Cape Sea Route", *Round Table*, October 1969.
11. See D. L. Niddrie: *South Africa: Nation or Nations*, 1968, p. 119.
12. See E. S. Munger: Notes on the Formation of South African Foreign Policy, 1965. Professor Munger notes that there are few pressure groups in South Africa affecting the formulation of foreign policy. The much discussed division between the 'verligte' and 'verkrampte' elements in the National Party probably means in the foreign policy sphere that Mr. Vorster has to be careful not to move too fast in what might appear to be a 'liberal' direction.
13. M. Brecher: *The New States of Africa, 1963 and "International Relations and Asian Studies: the subordinate State system of southern Asia"*, *World Politics* 15:2, 1963; M. Brecher et al.: "A Framework for Research on Foreign Policy Behaviour", *Journal of Conflict Resolution* XIII: 1, 1969; L. Binder: *The Ideological Revolution in the Middle East, 1964*; I. W. Zartman: "Africa as a subordinate State system in International Relations", *International Organization* 21, 1967. See further G. Modelski: "International Relations and Area Studies: the case of South East Asia", *International Relations (London)* 2:2, 1961; T. Hodgkin: "The New West African State System", *University of Toronto Quarterly*, 31:1, 1961; S. Hoffmann: "Discord in Community: the North African area as a partial international system", *International Organization*, 17:3, 1963.
14. See G. Schwarzenberger: *Power Politics* (3rd edn.), 1964, Chapter 11.
15. *South African Industry and Trade*, Dec. 1967, p. 31.
16. U.N. Monthly Chronicle VI: 6, 1969, p. 21 et seq.
17. Andrew M. Scott: *The Functioning of the International Political System, 1967*, p. 19.