Hefti, Christoph / Staehelin-Witt, Elke, 2005: Wirtschaftssanktionen gegen Südafrika während der Apartheid. Basel: can be ordered, in German, from BSS, Blumenrain 16, 4051 Basel, photocopied Fr. 30.- oder by e-mail: CONTACT@BSS-BASEL.CH.

Excerpts of the Hefti/Staehelin-Witt study have been translated into English and used in the commentary below. Despite our best efforts, we cannot guarantee the accuracy of these translations. Only the original German study is authoritative and therefore should be consulted directly.

An Indignant Commentary: How to Compose Politically Desirable Results

By Mascha Madörin

The Swiss National Science Foundation NFP 42+ research framework examines the relationships between Switzerland and South Africa. A study specifically analysing the question of sanctions has been published as part of this framework. In this study, Christoph Hefti und Elke Staehelin-Witt conclude that from an economic perspective, government economic and especially financial sanctions on the apartheid state were relatively ineffective and had little effect on South Africa's political transition. In the same stroke, they conveniently nullify the question of whether Switzerland contributed to prolonging the apartheid regime.

However, these conclusions are reached using scientifically inadequate methods. The study's economic reasoning is flawed, particularly with regards to the financial sanctions. It contains little new research material. Further, the main arguments are not independently derived but rather supported by a limited number of sources that themselves hold economic sanctions against South Africa as ineffective. Studies and facts pointing to different conclusions are not considered. Literature from experts linked to the anti-apartheid movement is only incorporated for meaningless statements, to give the appearance of objectivity. The study also does not maintain sufficiently high scientific standards in many details. Moreover, it repeatedly demonstrates the authors' scant understanding of the global financial system. As a result, the authors systematically underestimate the role of the IMF's financial sanctions and the effect sanctions had on negotiations during the transition period. They especially exclude the apartheid regime's increasingly precarious foreign currency liquidity crisis, with negative liquidity exceeding $24 billion at the end of 1989. Similarly, they ignore the billion dollar losses that the apartheid state incurred because South Africa could not access any regular international loans or credits.

The Swiss National Science Foundation has in turn used its study to reject the hypothesis that Switzerland helped prolong the apartheid regime by not joining in with sanctions. This alleged ineffectiveness of sanctions is now part of the pool of arguments that can be conveniently recalled for political purposes under the guise of scientific validity.

The following shortened and slightly altered English commentary on the Hefti/Staehelin-Witt study focuses on one of the core conclusions: Government-imposed financial sanctions were economically relatively ineffective and had little impact on the political transition. This conclusion also neatly eliminates the question of whether Switzerland contributed to extending the apartheid regime. The heavily shortened English translation omits the sections that critically analyse the scientific methodology, information sources and different formal questions. Comments on the discussions relating to non-financial economic sanctions are also excluded.

Part I
Comments on the theoretical economic approach, on the restrictions imposed on the topic and on scientific scepticism(...)

The study declares as its "central point of investigation" the "influence of the *economic sanctions* on the political transformation in South Africa. The behaviour and importance of Switzerland is assessed by *comparing the significance of economic sanctions imposed by other countries*." (12) (...)

The authors describe the questions addressed by their study as follows: "The study answers three question areas. Firstly, the study examines why particular trade or financial flows were sanctioned, while others were not. Which criteria influenced the country-specific choice of sanctions? Secondly, the costs of economic sanctions are examined. In simple terms, sanctions that imply low costs should only have a small influence on politics. This section examines the costs of financial sanctions in details, because these are particularly interesting from the Swiss perspective, and secondly no study known to us has as yet quantified the cost of financial sanctions. Thirdly, the question of how much economic sanctions against South Africa promoted political transformation is answered." (13)

These questions are clear and logical. However, there is a methodological problem with the restrictions placed on the research topic: "We define economic sanctions as coercive measures imposed by *government* that exert economic pressure to achieve political changes. [...] In South Africa's case, the difference between *coercive government measures (economic sanctions)* and *other economic measures* is pivotal."(13)

The topical restriction established by the researchers is problematic for several reasons in South Africa's case:
1. Already since the 1960s, the sanctions movement did not only consist of a heterogeneous composition of national and international civil organisations and movements. Rather, it consisted of a broad international union of nations (African, Asian, Scandinavian, socialist and important Commonwealth members), international organisations (the UN, the Commonwealth and later the EC) and national civil society organisations. For three decades, this unique union of government stakeholders and civil society organizations tried to convince the most important Western business partners - the United Kingdom, Germany, the United States of America, Switzerland, France, and Japan – of the importance of government sanctions. The difference between governmental and non-governmental sanctions is therefore questionable and not plausible. In South Africa's case, an analysis of the effects of actual economic sanctions would be more interesting, regardless of who enforced them.

2. In addition to the abovementioned restriction imposed on the subject matter, the authors also limit the study's time horizon. They presume that government sanctions only

existed from 1985, that is 1986. Certain countries already introduced selective government sanctions in the 1960s and in India's case even sooner[1].

3. The political interchange between civil society organisations, national political institutions and international organisations was always part of the South African sanctions and their effectiveness. The pressure exerted by the sanctions movement culminated with corresponding decisions and recommendations by the Commonwealth in 1986, US Congress decisions of 1986 and the EC decisions. These decisions forced the US, UK and German governments to act, against their will. Only due to steady lobbying and political mobilisation did these governments implement sanctions and enforce the laws. Both governments and corporations were carefully monitored both nationally and internationally. Not only observance of the law was monitored, but also observance of codes of conduct negotiated by civil society. The authors of the study concern themselves intensively with legally prescribed measures, but hardly with the effects of the negotiations that took place in the foyers of parliaments and governments. These sometimes became politically effective, yet were not manifested in laws or decrees.

4. The effects of sanctions differ, depending on whether only government decided on their implementation, or whether they are also demanded by political movements within the affected countries. In South Africa, sanctions were demanded by the most important opposition political organisations within the country itself, and from 1985 by a majority of all independent black trade unions[2]. This reality results in a very different constellation of stakeholders than has for instance been the case for Cuban, Libyan or Iraqi sanctions. These sanctions correspond more closely with the conceptual model in the Hefti/Staehelin-Witt study. Sanctions supported the political demands of the anti-apartheid movement. The "transmission-mechanism" between economic costs and the political effects of sanctions – a central concept in the study – abstracts from this aspect.

5. The opposite is also true: Sanction campaigns implemented due to civil society organisations exerting pressure and negotiating with the private sector have a different impact than where sanctions are an issue within national governments and international organisations. The so-called Sullivan Principles were established and negotiated by civil society groups in the US. As studies show, these principles were more strongly enforced by American companies in South Africa than the corresponding Principles that European trade unions negotiated with companies under the European Community framework.[3] The source of these differences needs to be established more clearly. For example, in 1979 the US Congress passed a law that banned export credits for US companies that did not sign the Sullivan Principles. In South Africa's case, an additional analysis therefore needs to be conducted, studying the effects of government sanctions when they complement and strengthen people's sanctions.

[1] See the Chronologies Comparison (partially in German), which can be requested from: mail@solifonds.ch
[2] See Madörin 2005, chapter 3.
[3] See Madörin 2005, § 3.3.

In short, the study's analytical separation – between diplomacy and sanctions, and between the activities of sanction movements and government decisions – is misleading and methodologically questionable in South Africa's case.

The chosen methodology

With regards to the research methodology, the authors write: "The study uses *public choice theory* and *trade theory* to examine government intervention in international trade. [...] *Public choice theory* concerns itself with processes of collective decision-making. Different role players (*interest groups*) thereby influence the political process. [...] Public choice theory ascribes these stakeholders (in politics: politicians, bureaucrats, interest group representatives and voters) the same motives as private sector stakeholders. The actions of stakeholders are determined by the maximisation of self interest. [...] Public choice theory is an important instrument for examining economic sanctions. Firstly, the choice of which areas of the economy are sanctioned has a significant effect on the eventual costs of the sanctions. The choice of economic sanctions is then influenced by different interest groups (business lobby groups, NGOs), and explained using public choice theory. Secondly, public choice theory helps examine the effects of economic pressure on politics in the sanctioned country. Trade theory is used to analyse the implications of government interventions (economic sanctions) on well-being and the income distribution in both the sanctioned and sanctioning countries." (14f.)

Despite problematic theoretical assumptions, public choice theory has a big advantage: It assesses the motives of different interest groups in countries imposing the sanctions, and the effect on different interest groups in the sanctioned country. This differentiation is very revealing for understanding political transformation processes that are (should be) initiated by sanctions. This theoretical starting point still has several weaknesses:

1. "Self interest" is a black box. Or, expressed more traditionally, it is a tautology that can always be used ex post since the eventual outcome will always by definition be self interest maximisation. The term self interest maximisation furthermore presumes that the utility of an institution, such as a ministry or parliament, can be clearly defined. But what is the self-interest of an institution if, as in politics, heavily contested majority decisions take place? Furthermore, what time horizon is considered for self interest? Firms with factories in foreign countries have different time horizons and self interest constellations than lending banks, for instance with regards to the stability of a regime against which successful strikes are organised. One can observe these differences with reference to the debate about South Africa's prospects. This controversial debate between important South African and foreign economic role players and the South African government was over whether one should expect a period of five or twenty years to democratisation, or if reform prospects were realistic without ANC (African National Congress) negotiations. In the last apartheid years, whether South Africa could survive economically with sanctions was heavily debated within the establishment. During this period of upheaval, characterised by great uncertainty about South Africa's future for all stakeholders, it all depended on which and whose scenario one hoped for and gambled on. The category "self interest" does not do justice to these complex connections.

2. Furthermore, what is the "self interest" of an anti-apartheid movement in the United States? How can public choice analysis explain the fact that the US Congress legally prescribed a detailed sanction policy on the US government, against its will? How can it explain that all further measures only resulted from pressure exerted by the US anti-apartheid movement and its complicated negotiations with Congress representatives?

3. I agree with the authors of this study that the effectiveness of sanctions depends in part, but not solely, on the costs of sanctions for specific stakeholders in the affected country. Research needs to analyse the question of costs and assess their economic relevance, as the study's authors (wish to) do. However, they have refrained from examining the political and economic consequences of sanction threats and promises to lift sanctions – a game played with great finesse by all involved in South Africa's case. The political scientist Christopher Landsberg illustrates these events with many facts in his book, *The Quiet Diplomacy of Liberation (2004)*. Promises to remove sanctions or not to introduce them, and threats to increase sanctions were an integral part of international diplomacy, especially during the conflict rich year of 1989 and afterwards during the negotiations over democratisation until 1993. Hefti/Staehelin-Witt merely mention that sanction threats could have an effect, but they do not clarify whether and how they would work. The case of South Africa during the negotiation phase between 1990 and 1993 would have provided substantial material to examine this question. The two authors essentially position the end of economic sanctions in 1991, and their analysis ends there. But as Landsberg shows impressively, positive and negative sanctions incentives were used repeatedly in international diplomacy from 1991-1993, not least during controversies about voting law and the so-called group rights.

4. The public choice approach is primarily used in this study to explain the limitations of sanctions implemented by Western countries; therefore, the fact that Switzerland did not impose sanctions is implicitly legitimised by the fact that the USA and other Western countries did not selflessly defend South African human rights. From the perspective of the anti-apartheid movement, it is precisely this view that motivated the "people's sanctions" and the political campaign to force governments into making sanction laws. The point was to push demands through business-friendly governments and private business enterprises that these entities would not have accepted if they were following their self interest. These demands were to oppose the policies of the apartheid regime and engage in negotiations with the banned South African resistance movements.

Unresolved theoretical economic problems

Hefti/Staehelin-Witt examine the macroeconomic effects of sanctions on South Africa primarily using *trade theory*. However, trade theory is not appropriate for analysing the economic effects of financial sanctions, the connected balance of payments crisis, the financial instability of South Africa and the related macroeconomic costs and contradictions. At best, trade theory can only assess a small fraction of what financial sanctions may mean for the economy.

Chapter 3 (Pages 16 to 32) discusses in greater detail the effects of economic sanctions from an economic sciences point of view. The chapter shows an ambivalence present throughout the study between a national economic perspective on sanction costs (derived from [free] trade theory) and a view of costs for different stakeholders in the sanctioned country (derived from public choice theory). The authors of the study do not concern themselves with when each approach can and should be meaningfully applied. The arbitrariness of the selected data is therefore amplified by the arbitrariness of the relevant analytical approach, resulting in eclecticism in the line of reasoning that is inscrutable and unclear.

I hold the public choice approach in Chapter 3 of analysing the "exact transmission mechanisms" that channel economic effects of sanctions to political results as helpful and insightful. This approach allows an escape from too generalised a pros and cons sanctions debate. The authors explain their approach as follows: "Economic sanctions are imposed to bring about political change in the sanctioned country. The political change should be caused by economic pressure, that is loss of economic prosperity. In general, the desired political change is triggered as soon as the economic costs of sanctions exceed the costs of political change. The exact transmission mechanism differs from case to case. The influence of different political decision-makers in the sanctioned country and the effect of sanctions on these persons can differ significantly. Ultimately, powerful decision-makers must be affected by economic sanctions, so that they support political change. (...) The most important interest groups include the government, the political parties, the trade unions, the sources of work and capital, the voters and the political opposition." (16)

The following needs to be noted in this regard:
1. The core statement that "desired political change is triggered as soon as the economic costs of sanctions exceed the costs of political change" cannot be verified. In times of upheaval as in South Africa's case, no one can estimate the costs of political change, not only because the future is extremely uncertain, but also because cost comparisons are impossible in this context. The question is really more about the extent to which different role players continue to see reliable, promising and cost-effective political **perspectives** in light of the sanctions. Why do other prospects begin to appear inevitable, among other reasons because costs are rising and sanctions threaten to become a greater burden? In South Africa's case, the issue was the heavily debated prospects of democratisation, which were feared by the white elite. Viewpoints diverged with reference to the time horizon for reforms to abolish apartheid, the content of reforms and the question of negotiating conditions.[4]

2. In applying a public choice approach, an analytical question must be clarified: Which interest groups are important, how important and influential are they, and what costs did sanctions create for them? For example, who were the most important role players in the decision to release Nelson Mandela and to begin negotiations, and to what effects of sanctions were they exposed? What role did local and international corporations, the government, white public opinion in South Africa and the international public play? The

[4] Madörin 2005a, §4.7. and 4.8.

study does not clarify these points. The line of reasoning remains limited to very general macroeconomic considerations, the political debacle of Botha's reform politics, and the world political event of the Fall of the Berlin Wall. The list of important interest groups also omits the repressive machinery of the apartheid state. The military and the police were very powerful within the South African government. What role did they play in these decisions? The expenditure on this repressive machinery dramatically increased from 1985. Only the 1988 military defeat against Angola (in Cuito Canavale) probably weakened – and this needs to be researched further – the hawkish faction within the apartheid regime. Amongst other reasons, the anti-apartheid movement also attributed this military defeat to technical and financial problems in the South African army caused by the UN Weapons Embargo and the financial sanctions.

The study also completely excludes the debate over the impact of financial sanctions on the apartheid regime in the narrow sense, namely with regards to the apartheid state and state-owned enterprises. The study also does not examine whether financial sanctions limited the financial and therefore political scope for action, which sanction supporters claim they did. This topic is not analysed even though it would be a classic public choice topic.

The chapter on the operation of economic sanctions contains several sections on the type of costs economic sanctions can have. The authors here apply a view of the financial sector that – with its concentration on investment, production and trade – may have been adequate in the 1960s, but is completely misplaced in light of the dynamics that have evolved in the international financial system since the 1970s. The view applied by the study is also inadequate considering the fact that in the late 1980s South Africa was worldwide the 9th largest international finance market, ahead of Australia, Malaysia, Singapore and Sweden.[5] Like Switzerland, South Africa's economy has also traditionally been very internationally connected. This fact explains why the balance of payments crises were particularly problematic – even for the local economy.

In a last section of Chapter 3, the study warns of the negative effects sanctions have on already disadvantaged groups of society and the effects after lifting sanctions. In the end, readers are instructed: "Firstly, one should evaluate whether change cannot also be achieved through diplomatic measures. Secondly, the likelihood of political change is to be gauged." (23) The authors however do not examine these questions and therefore give the impression that these considerations did not form part of the decisions made on sanctions. Both the Commonwealth and the US Congress viewed the decisions and recommendations to implement sanctions as an integral part of diplomatic activities; indeed, as a prerequisite for achieving success in diplomatic activities that had previously failed. Long-running fruitless negotiations about Namibia, the war on neighbouring countries and apartheid itself preceded the sanction decisions made by Western nations and the Commonwealth. In the end, the authors argue for so-called *targeted* or *smart sanctions*, again giving the impression that these sanctions did not form part of the debate and were not implemented in the past. These sanctions could be escalated or removed

[5] Nattrass 1997, 13.

progressively in a targeted manner. Comprehensive sanctions were rejected by all Western nations and the Commonwealth, even though the anti-apartheid movement and a number of African countries demanded comprehensive and mandatory sanctions.

Part II
On the analysis of economic sanctions against South Africa and their effects on the political transformation process

Chapters 4-6 describe the economic sanctions imposed on South Africa, estimate their costs and make assertions on their political effects.

Chapter 4 begins with several pages chronicling important events during apartheid both in terms of politics and economic sanctions. Subsequent topics are a list of sanction measures imposed by different Western countries, a section on Switzerland's behaviour and a longer section with a public choice analysis on sanction decisions. The latter section tries to show that the governments of South Africa's most important trading partners (the UK, the USA, Germany, Switzerland, Japan and France) did not want comprehensive sanctions, and particularly not ones that would negatively impact their own companies. Indeed, the sanctions that were imposed were not independent of specific sectoral economic interests. They were selective, inconsistent and only implemented due to political pressure from the anti-apartheid movement.

A questionable view of the sequence of events
This section will examine in greater detail the chronology found at the beginning of the chapter, because it is significant for interpreting the link between sanctions and their political effects.[6]

At the end of chapter 4, the authors summarise: "The reforms that eventually led to the abolition of apartheid were facilitated by FW de Klerk's election in 1989. PW Botha had a heart attack [it was actually a stroke MM] shortly before, enabling the change of power. The European Community lifted economic sanctions in 1990 during the FW de Klerk reform process, even though he still held the 'one person – one vote' principle as unacceptable; the USA lifted sanctions in 1991, after apartheid's foundations were abolished. Mandela criticised these measures as premature. In 1994, after about 50 years of apartheid, Nelson Mandela was elected as the new president of South Africa in the first general elections." (55)

These conclusions are based solely on the chronology of events established by the authors at the start of chapter 4 (Pages 33-39). There are no further facts within the chapter to support the authors' findings. Hefti/Staehelin-Witt's chronology is substantially based on a much longer and more detailed chronology by the USA-based Institute of International Economics (IIE). The authors have dramatically shortened this chronology, but added further information on Switzerland and the EC's position. In principle, this approach cannot be faulted. It is, however, worth noting what the authors have omitted, and what political events were added or removed. The following points of criticism are hereby raised:

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[6] See the Chronologies Comparison (partially in German). Can be requested from: mail@solifonds.ch

1. Of all times, the chronology has been extensively shortened from the IIE's original for the period from 1985 to 1990. This is the period that the authors examine and over which they make definitive statements on the political effects of sanctions. Omissions include information on the sanction negotiations and sanction threats, but also South African and international political events. Yet it is from 1988 until early 1990 that the strategy changed through the abolition of apartheid and the recognition of banned organisations as negotiating partners. With regards to this phase, the authors for instance omit – in contrast to the IIE chronology – that from July 1989 gold bullion became subject to the trade sanctions imposed by the US Congress. Congress actions were based on a report by the US Congress's General Accounting Office. This decision critically limited South Africa's practice of alleviating the liquidity crisis with gold swaps and gold loans made by the South African Reserve Bank. The authors mention this report on page 51, but merely write that the report warns of possible unexpected price increases if gold sanctions were imposed. They do not mention that a gold bullion boycott actually was imposed from July 1989; they also do not confirm whether the concerns about gold price increases were actually borne out. Indeed, the gold price decreased both in real and nominal terms from January 1989, and the price decreases were only reversed again in the last quarter of the year. In the renowned Gold Fields Mineral Services Annual Report no mention is made of these feared price increases. The authors of the Annual Report use reasons other than the gold boycott to explain the relatively moderate gold price movements, citing that the market generally feared an oversupply of gold.[7]

2. The study's authors give the following reasons for the apartheid regime's willingness to negotiate: stagnation in the apartheid economy, change of government from PW Botha to FW de Klerk and the end of the cold war. This thesis is repeated several times within the study. In any case, the study does not explain why FW de Klerk transformed from a conservative politician when it came to abolishing apartheid, to the politician of the 1990s. That the change of power within the National Party was significant and increased the possibility of a negotiated solution is taken for granted. The study also does not explain why the hawks in the apartheid regime and particularly the military changed their political viewpoints. Indeed, to the dismay of reform orientated South African economic stakeholders, De Klerk was elected as National Party president instead of the Finance Minister Barend du Plessis, who was seen as a reformer. In the past, de Klerk had become prominent as an opponent of Botha's modest reform proposals. As a result, the then British Prime Minister and sanctions opponent Margaret Thatcher viewed him as "just another bloody Boer" (Sampson 1999, 386). The mention of Botha's stroke and the listing of a few decisions made by de Klerk do not explain the dramatic change in de Klerk's political position, particularly his willingness to negotiate with the ANC. Everyone realised that reforms were required. But the apartheid regime understood reforms as "controlled change". The critical points were the recognition of anti-apartheid movements as equal and legitimate negotiating partners, the "one person – one vote" principle and the abolition of apartheid in all public spheres such as education and the public sector.

[7] Gold Fields Mineral Services 1990, 9-11.

3. According to the IIE Chronology, the Comprehensive Anti-Apartheid Act of the US Congress recommended sanctions against countries that "profited or achieved commercial advantages" from the restrictions sanctions placed on the US economy.[8] It is surprising for economists that have ascribed to public choice theory not to consider this aspect of US sanction policies. It is known that at the end of the 1980s, the large Swiss banks faced increasing public pressure in the USA and Canada due to their South African business interests. For the Swiss large banks, the US market and its expansion were very important at that time. Of course, US banks subject to South Africa sanctions would not have objected against their Swiss competition getting into the crosshairs of the American government. The – to be tested – hypothesis arises that the massive reduction of South African gold exports into Switzerland from 1988 may have had something to do with rumours of the American gold bullion boycott, which were already circulating. In general, the authors underestimate the impact US sanctions would have had on Western companies and banks outside of the USA.

4. Similarly, Hefti/Staehelin-Witt claim that the USA lifted all trade sanctions in 1991, but conceal the fact that the prohibitions on trade of nuclear materials and weapons remained in effect. They also exclude the consequential US opposition to loans for South Africa made in multilateral institutions (International Monetary Fund, World Bank). Further, US presidential restrictions placed on the award of government export risk guarantees and export promotion were only lifted on 23 November 1993, once the South African government had accepted the creation of a national transitional government and agreed on a date for democratic elections. The weapons embargo and the prohibition on the trade of nuclear materials remained in place.

5. Both the Hefti/Staehelin-Witt and the IIE Chronology miss pivotal information pertaining to the US financial sanctions. In my opinion, this information is critical for understanding the mechanisms and effects of financial sanctions. In November 1983, the US Congress decided that the US must vote against IMF credits and loans to countries that practice apartheid (wherever they may be in the world). The US government was tasked with "actively" preventing IMF loans to South Africa, as long as the South African Finance Minister could not prove that loans would serve the majority of the population and promote access to capital and employment opportunities for discriminated population groups. In 1986, both US president Ronald Reagan and the US Congress stipulated that the US representative at the IMF had to vote against loans to South Africa. This decision was only revoked in November 1993.

6. Both the Hefti/Staehelin-Witt and the IIE Chronology also omit information on the threats of sanctions made around the outcome of a white minority referendum held on the 17th of March, 1992. This referendum was about the new constitution that was to be drawn up by a transitional government with government participation by the leading black anti-apartheid organisations. The White House warned that in case of a "No", further sanctions would immediately be imposed on the white minority regime. The conservative British Prime Minister, John Major, also announced that only a "Yes" would

[8] IIE Chronology, entry for 2.10.1986.

allow South Africa to return to the international community and attract the investment it required for economic growth. Even Switzerland seems to have threatened economic sanctions in case of a "No". Promises that sanctions would be removed in case of a "Yes" came from everywhere.[9] The latter would not have been possible if sanctions were not still in place.

7. Both in the chronology and in the rest of the chapter, the authors barely find the financial sanctions against the apartheid state and parastatals worth mentioning. They mention these sanctions in the listing of US sanctions (but not of EC sanctions) in chapter 4, but do not delve deeper into this aspect. This omission occurs even though these sanctions were demanded by the anti-apartheid movement already since the 1970s, and these measures are targeted directly at the state, not generally against the South African economy, in accordance with public choice theory. According to the South African Reserve Bank, the share of Swiss large bank long-term loans to the apartheid government was significantly higher than the share of Swiss large bank loans to other businesses in South Africa.[10]

The analysis of sanctions and their costs

Chapter 5, on the costs of economic sanctions, is the heart of the research project. It considers the question of how sanctions altered South Africa's external economic relations (reduction of trade, change of capital flows), what costs resulted, and which of these costs could be related back to government financial sanctions. In chapter 6, the authors discuss the effects of the identified costs on South Africa's political situation.

Chapter 5 contains a long section on the different aspects of capital inflows into South Africa. This section is followed by a section on trade sanctions, but without considering diamonds or gold! Next there is a section on sanctions busting transactions and exceptions to sanctions regulations, followed by another section on distribution effects. The last section is dedicated to the role of Switzerland.

All these passages provoke criticism and opposing representations. (...) However, the analysis of the financial sanctions remains particularly problematic. (...)

Hefti/Staehelin-Witte explain South Africa's debt crisis with enormous net capital outflows that, as they emphasise repeatedly, began before government financial sanctions, i.e. already from 1985. The latency phase, before sanctions laws were adopted by the US Congress, must have undoubtedly already influenced the financial markets. First agreements on the preparation of a sanctions law were already reached by the US Senate in May 1985. In September, US President Reagan enacted moderate sanctions that put the US on the path to prescription. The sanctions law was finally only enacted in October 1986 by the House of Representatives, after a serious tug-of-war and against

[9] Landsberg 2004, 116.
[10] Madörin 2005a, 137f.

Reagan's veto. The authors give the following reasons for the enormous capital outflows from 1985:
- the growing political unrest in South Africa
- the poor economic situation
- the pressure from the anti-apartheid movements, particularly the success of the American anti-apartheid movement

There is nothing to fault in this list, but a decisive factor is missing: The financial sanctions imposed through the Bretton Woods Institutions, which the US Congress already implemented in 1983. In 1975-1976, the IMF's balance of payments assistance to South Africa was still bigger than IMF assistance to all other African countries combined. In the early 1980s, South Africa again experienced balance of payments problems. At the end of 1982, the Executive Board of the IMF approved a "stand-by" credit of $1,1 billion to South Africa on very favourable terms. The approval was reached with a very narrow majority of 51.9%, thanks to the US vote. This credit prompted international outrage and led to a mobilisation of the anti-apartheid movement in the United States. As already mentioned, the US Congress therefore decided in 1983 that the US had to vote against IMF credits to countries "practising apartheid". The Congressional Black Caucus was a leading force in lobbying for this decision. With this decision, the US representative at the IMF was ordered to "actively" prevent IMF loans to countries "practising apartheid". With its high share of votes, the US had an effective veto. From this point on until the end of apartheid, South Africa could no longer rely on the IMF for balance of payments assistance, except for elements based on the earlier 1982 decision. South Africa subsequently avoided applying for more credit at the IMF, since this would have triggered an official investigation by the US and prompted public debate on the state of apartheid.[11] The Bank for International Settlements probably also granted no more loans, although it may have participated in some swaps. In any case, according to the Washington Post, central bankers rejected the creation of an aid package for South Africa at a BIS meeting in September 1985. In 1986, the US Congress also decided that the US representative at the IMF generally had to vote against loans to South Africa, a decision already passed by the US president. This decision was only revoked in November 1993.

Even though the UN Security Council did not impose any binding financial sanctions, the US Congress decisions of 1983 and 1986 greatly affected South Africa's access to financial markets. Carim et al write, "Although these first anti-apartheid financial sanctions did not prevent South Africa from securing private international loans, the absence of IMF approval made foreign finance more expensive (generally at a 1 percent premium) and precluded access to bridging loans from the Bank of International Settlements. In addition, in the wake of the Mexican crisis, international access to debt finance generally became more difficult, with short-term loans becoming the preferred tool to service emerging market demand for finance. Thus the absolute levels of South Africa's foreign liabilities grew substantially, with short-term debt amounting to $ 14 billion by 1985, while longer-term outstanding loans came to $ 10.3 billion. The proportion of South Africa's short-to-long-term-debt (66 percent) grew even higher than

[11] Oveden/Cole 1999, 102ff.; Junne 1987, 265f.; Carim et al. 1999, 162f.

other developing countries (44 percent), involving even greater risks that any drop in the value of the rand would increase the debt burden in dollar terms." (Carim et al. 1999, 163) Although Hefti and Staehelin-Witt mention this problematic debt structure (70), they do not link it to the new situation at the IMF.

To support their claim that the political crisis, not financial sanctions, led to the financial crisis, the authors use a diagram. This diagram shows that when the political crisis in South Africa escalated – such as after the Sharpeville Massacre, the Soweto Uprising and after 1984 – massive amounts of capital flowed out of South Africa, and South Africa struggled to access capital on the international markets. Their calculations show that during and after the Soweto Uprising – a period before governmental financial sanctions - the capital flight as a proportion of GDP was similar or even somewhat larger than the outflows in 1985. They quote the then Governor of the South African Reserve Bank as a contemporary witness, who explains the following about the 1986 sanctions: "The EEC and US sanctions packages on bank loans and investments do little more than change a de facto into a de jure situation" (90, quotation from the Financial Mail, 28.11.1986, 63).

Aside from the critical questions surrounding the effects the 1983 block on IMF loans had on the financial crisis, the authors' view is also challenged by another argument: The beginning of a crisis differs from the recovery from a crisis. The authors do not make this differentiation. The government's *de jure* statement was very important for the anti-apartheid movement. The situation that occurred after the Soweto Uprising was to be prevented: A normalisation within one or two years with the country again having access to credit, back then not least because of assistance from the large Swiss banks. A law is an additional hurdle that helps prevent a "normalisation" or de-politicisation of the financial markets. A law institutionalises political pressure. For the same reason, the anti-apartheid movements mobilised against long-term debt rescheduling agreements. The aim was to make the "uncertainty" risk factor of repeated debt rescheduling negotiations as high as possible, both for the apartheid regime and their international financial partners. In short, all possible hurdles were to be erected to prevent a normalisation in the international financial relations of the apartheid regime – until there was willingness for "genuine" negotiations over the abolition of apartheid.

The last years of apartheid illustrate the effectiveness of the IMF decisions, which the US Congress upheld until 1993. From mid-1992, South Africa was in a difficult political crisis with violence escalating and negotiations between the National Party and the ANC faltering. The risk premium for credit rose from 1.5% to 3%. According to estimates made by the Financial Times in June, credit repayments of $1,6 billion US were due at the end of 1993 and nobody knew where the money should come from. The Financial Times hoped that higher gold earnings and therefore a positive trade balance would improve the bleak balance of payments prospects. After all, South Africa could not find sufficient loans or, if any, only ones that were very expensive due to the high risk premium. The only other, and in such crisis situations usual, solution to the liquidity dead end was IMF loans. But this was not possible: "An IMF facility, however, appears unlikely to be offered until an interim government is in place a year or so hence. […] Two notes of optimism arise from recent ANC statements that they will not seek to

renegotiate debt arrangements and that they will campaign for the lifting of sanctions once an election date has been announced and a transitional executive council is in place." (Financial Times 11.6.1993) In May the same year, the World Bank announced that a loan of $1,5 billion would be available for reconstruction in South Africa as soon as a transitional government was formed. But in June, the main negotiation participants – the National Party and the ANC – were in disagreement over how a future national government of unity would be constituted. In the end, this process was completed faster than expected. On 25 September, the South African Parliament approved the election law providing for democratic elections on the 25th of April, 1994. After the implementation of a Transitional Executive Council (TEC), the US Congress decided on a law that abolished all sanctions, including the one on US policies in the Bretton Woods organisations. Only the weapons embargo and the prohibition on trade of nuclear technology were excluded.[12] This cleared the way for IMF and World Bank loans. In November, the Transitional Executive Council accepted an IMF loan of $850 Million, which had already been negotiated prior to the implementation of the TEC.[13]

Unperturbed by such facts, Hefti/Staehelin-Witt firmly hold that government financial sanctions were meaningless since only political events led to a financial boycott of South Africa. But according to a special Commonwealth study on financial sanctions, (Oveden/Cole 1989), which the authors surprisingly do not consider in their research, the financial sanctions definitely worked through more channels:
1.) By restricting economic growth, because a positive trade balance had to be engineered to compensate for capital flight.
2.) Because of the lower economic growth rate and the inadequate access to international financial markets, the public finances of the apartheid regime became scarce. The running expenses of the repression engine were growing; yet, the regime also should have increased spending on black public institutions as part of reforms envisaged by the apartheid regime. For the authors of the Commonwealth study, this is the main reason for the apartheid regime's withdrawal from Namibia.
3.) The apartheid regime's political and economic manoeuvrability declined: "Financial sanctions also impose enormous constraints on the key decision-makers in South Africa. They limit the room for manoeuvre of the bureaucrats responsible for trying to ensure rational macro-economic management; the heads of state enterprises with investment and expansion plans, and the directors and managers of private sector firms badly need capital for growth and development. These are precisely the people whose influential support is crucial for the government in the pursuit of its other policies." (Ovenden/Cole 1989, 190f.)
4.) The financially limited government policy options triggered a crisis of confidence amongst its own ranks: "These things together have worked to undermine the confidence of many whites in South Africa, not least among the business and commercial communities, but also among the senior echelons of the public sector responsible for economic monitoring, reporting and management. […] What has enabled apartheid to survive until now, despite rather than because of itself, has been its access to world stocks

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[12] Landsberg 2004, 103.; IIE Chronology online.
[13] Terreblanche 2002, 96.

of capital, either through the sale of gold or through borrowing." (Ovenden/Cole 1989, 188-190).

The South African Reserve Bank later shared this view of the economic effects of the financial crisis as expressed in their submission to the South African Truth and Reconciliation Commission. The South African Reserve Bank, then still under the last apartheid regime Governor Chris Stals, wrote the following about the strategic role that financial stability and macroeconomic turbulence played for the political unrest in South Africa:
"Referring to the consequences of the continuing capital outflows for the South African economy, Dr Chris Stals said in Cape Town in November 1990:
'The large capital outflows over the period therefore:
- forced a fairly depressed domestic economy with real economic growth well below the normal optimum capacity of the economy;
- absorbed a large share of a relatively declining amount of domestic saving; and
- drained the domestic money and capital markets of liquidity which, at times, had to be replenished by the unhealthy creation of new money in the country.'
[…] The macroeconomic consequences of the political system of the time made the apartheid policies of the government untenable. The rising pressure of adverse economic developments undoubtedly made an important contribution towards the decision to introduce major reforms in the early nineteen nineties.
The Reserve Bank always regarded its actions and behaviour to be strictly in compliance with its mandate given to it by Parliament, and that is to maintain overall financial stability, even in an adverse political environment. To the extent that its macroeconomic monetary policies with this overriding impartial objective in mind delayed the process of political reforms in South Africa, or did not more actively contribute to an earlier enforcement of the inevitable process of change, the Bank joins other institutions that already submitted their humble apologies to this Commission, and to all the people of South Africa.'" (SARB 13.11.1997, www.reservebank.co.za)

Experts inside the international sanctions movement – for instance also Oveden and Cole – wondered how at the end of the 1980s, despite the enormous capital flight, South Africa could find the billions of US dollars required to pay for loan repayments, trade credits and sanctions busting transactions. Oveden and Cole rightly suspect that the answer lay in the South African Reserve Bank's rand/dollar and gold/dollar swap transactions.

Hefti and Staehelin-Witt were not troubled by such questions. For them, these liquidity problems simply did not exist. Information that would have been difficult to find during apartheid and until 1998, was however available in later studies. They could have for instance found the relevant reference in our study on apartheid debt, which was published in early 1999.[14] The South African Reserve Bank also referred to the liquidity problems in publicly available statistics and statements after 1998. Particularly relevant is a longer statement by James Cross. (2002)

[14] Madörin and Wellmer 1999, 29.

The questions not researched by Hefti/Staehelin-Witt are as follows: How did the apartheid regime access the required foreign currency despite financial sanctions and capital flight? How did the economy, particularly importers and South African banks with foreign business relations, survive despite dramatic depreciation of the rand? How much did this cost? Here I will only give an abbreviated answer.[15]

From mid-1985, the apartheid regime was no longer able to access dollar credits and loans in the regular international financial markets because of the financial sanctions. Even though the large Swiss banks and Deutsche Bank remained loyal with a few roll-overs and very expensive new credits, normal borrowing valued in billions of rands each year was no longer possible. Each year, billions left the country in net capital outflows. The government reacted with three measures:

1) They introduced a dual currency system comprising of the 'financial rand' and the 'commercial rand'. This regime was intended to slow down capital flight. Capital transfers to foreign countries and disinvestments were only allowed if there was a buyer who paid in dollars. Foreign trade and profit transfers from direct investments could be exchanged at the commercial rand exchange rate. In addition, the financial rand was traded at a massive discount versus the commercial rand exchange rate. The analysis by Hefti/Staehelin-Witt neglects the fact that transfers subject to financial rand regulations are not statistically captured in the capital account balance. As a result, it is unclear what really happened in terms of disinvestment and investment. Each year, the net capital flight that the financial rand was supposed to curb was nonetheless in the billions of rands.

2) Simultaneously, at debt rescheduling negotiations the government tried to negotiate long term credit agreements to gain time. To regain credit worthiness on the financial markets, solid debt agreements with as long a duration as possible were an absolute necessity. Despite the debt rescheduling agreements, which were criticised as being too lenient by the anti-apartheid movement, South Africa was unable to be a regular participant on the international financial markets until the end of 1993. As already mentioned, one decisive reason was probably that the usual "lender of last resort", the IMF, was not allowed to act as such until November 1993. The other last resort South Africa used during apartheid and implemented in times of crisis was to use gold as a security, such as for short-term loans (Gold swaps) and long-term loans (Gold loans). This option was probably more difficult to use from, at the latest, 1989 when the US government implemented gold bullion sanctions.

3) The South African Reserve Bank intervened against the depreciation of the rand with short-term forward transactions (gold swaps and rand/dollar swaps linked to trade credits). They made large losses on these trades, probably in particular on dollar swaps. Despite debt restructuring, South Africa was no longer able to raise dollars other than through such forward transactions. The dramatic situation is illustrated by a statistic called the International Liquidity Position (ILP – at the time called NOFP, or (negative)

[15] For more information, see Madörin 2006.

Net Open Foreign Position). The negative NOFP shows how many of the outstanding forward agreements (rand/dollar swaps or gold swaps) were not covered by net currency reserves. At the end of 1982, this position was still zero but in March 1984 it was already at minus $7,5 billion. At the end of 1985, the ILP was narrowly minus $12 billion, with outstanding foreign debt at $23,7 billion. At the end of 1988, South Africa's external debt was at $21,2 billion and the ILP was at minus $24,3 billion! The ILP is an indicator for how strongly South Africa was excluded from international financial markets, and how important the procurement of dollars through forward transactions became. It also indicates the liquidity position of a country versus foreign countries. Because of international sanctions, South Africa's negative international liquidity position was enormous in 1988 and even exceeded the external foreign currency debt. At the time, these numbers were a closely guarded secret. Except for a select few, nobody knew that South Africa was on the verge of bankruptcy, and that South Africa moved closer and closer to the brink by the end of the 1980s.

From the public choice theory perspective, there is another interesting point in connection with the forward transactions. The South African private sector's costs and exchange rate risks grew enormously due to the financial sanctions. These effects originated from the financial crisis, the difficulty in finding regular credits and loans on international markets, and depreciation losses. Importers and banks with foreign business links were particularly exposed to the latter. Important role players in the private sector now had a reason to oppose the apartheid regime, should it not be able to quickly resolve the political crisis, stabilise the balance of payments and steady the rand exchange rate. The South African Reserve Bank introduced hedging contracts in the form of rand insurance agreements for companies and banks that had foreign business links. The purpose of these hedging contracts was to support the South African economy's vital import and investment projects, to protect the economy from large depreciation losses, and to prevent the private sector from turning against the government. Later, it became evident that particularly the long-term currency insurance agreements made large losses. These losses were borne by the state and not by the private sector. The South African Reserve Bank only discontinued this service to the private sector in 1997. According to SARB data, the parastatal electricity company Eskom caused the most currency losses. This fact is probably due to long-term import credits (for nuclear materials and possibly purchases of nuclear technology for armament) and due to the debt rescheduling agreements. The latter contained an option that creditors could convert debt into rand-denominated Eskom bonds.

The sanctions study contains nothing about these aspects of the liquidity crisis. In this context, the role that Swiss banks played at the time must be examined – which the authors do not do. Two additional questions need to be cleared up. Firstly, there is the question of the capital export ceiling and the explicit exception made for gold swaps, even though the duration of the swaps was over a year and therefore should have fallen under these regulations. The large Swiss banks had always participated in gold swaps and gold loans when South Africa was in a crisis, such as after the Sharpeville Massacre and the Soweto Uprising, when gold swaps were in the billions and well exceeded the capital

export ceiling.[16] South Africa was dependent on long-term capital for investment projects, and therefore made very long forward agreements from 1985. As far as I know, UBS (Union Bank of Switzerland) was at the time worldwide one of the few banks that would conclude such agreements with a duration of 10 years or longer.

Secondly, the dramatic increase in physical gold imports into Switzerland from 1984 to 1987 needs to be examined more thoroughly. In 1984, the year after the US Congress decision on IMF loans, gold imports into Switzerland from South Africa doubled. Already in 1988, imports then fell to less than half.[17] Why did the Zurich Gold Pool import so much less gold from 1988 than in the preceding crisis years? Was this change linked to the gold sanctions discussed in the USA? Or had Switzerland accumulated too much South African gold? Were the large gold imports into Switzerland from 1984 to 1987 linked to large gold loans and swaps? Or were they (also) related to capital flight by the economic and government elite, who had access to fairly large amounts of gold due to the Reserve Bank's control of the gold trade? Was the reduction related to developments in the gold market, or did other banks enter into the gold swap and gold loan business? Or was it linked to the South African military defeat at Cuito Canavale that changed the prospects of the apartheid regime for many?[18] Another reason could be that the apartheid regime's closest friends in the banking world – and the Union Bank of Switzerland was certainly among them – knew of South Africa's poor financial situation. The large size of the losses transferred to the state lead to the conclusion that from 1988, South Africa had to rely more heavily on other forward contracts than on gold swaps to gain foreign currency and therefore incurred significantly higher costs.

The costs of the financial sanctions

When Chris Stals, the previous Governor of the South African Reserve Bank, described the costs of financial sanctions, he includes that the capital flight forced South Africa to export more than it imported. This distortion of the trade balance in turn negatively affected the rate of capital formation and investment – costs that Hefti and Staehelin-Witt do not discuss. At this point, it must again be emphasised that South Africa could not compensate for the capital flight with loans and credits from abroad. This situation influenced internal capital formation significantly, as illustrated by the statistics for gross capital formation (gross saving less net capital exports – an important macroeconomic measure for the amount of investment activity in a country): Due to the sizable capital exports, gross capital formation was on average about 20% less in 1985-1989 than it was in 1980-1984. The negative effect was a little less pronounced from 1990 to 1993. The situation only changed again in 1994.

Hefti and Staehelin-Witt reach the following unsubstantiated conclusions: "The net outflow of foreign investment already began before the introduction of sanctions. Capital was only available under worse terms and only for certain borrowers. The decisive

[16] See Wellmer 2003, 8f.; Künzli, 176f.; Bott 2005, 276f.
[17] Interdepartementale Arbeitsgruppe 1999, 63.
[18] See Bell 2007, 220.; Madörin 2005, § 4.1.

factors for the capital outflow were the state of unrest, the generally poor condition of the South African economy, as well as – in the USA and partly in the UK (…) – the political pressure that put economic pressure on companies. The sanctions were therefore a reaction to events in South Africa and not their cause [...]. As a result, the short-term costs of financial sanctions, as mentioned above, were minor. Even in the mid- and long-term South Africa did not have to fear high costs. [...] Ultimately, South Africa's dependence on new foreign investment was also relatively low [...]. Furthermore, the influx of foreign capital since the 1980s mainly consisted of direct investments, which remained available, and reinvested profits, which were not sanctioned. The yearly costs of $260 million indicated by Hufbauer et al. [...] are too high once the costs of financial sanctions are considered, because Hufbauer et el. not only include economic sanctions, but also the economic measures taken by American states and cities. Since the economic measures taken by American states and cities considerably influenced the disinvestment process and also affected the behaviour of banks [...], their significance was probably greater than that of the economic sanctions. It seems plausible to estimate the share of the economic sanctions as less than 50% of the $260 million. The verdict: the costs of financial sanctions were too small to significantly exert pressure on the South African government." (90f.)

In these conclusions, it is difficult to separate the 1980s costs of the financial sanctions on the basis of their causes (unrest, people's sanctions, government financial sanctions, general economic crisis). Secondly, the calculation of costs is incomplete. Thirdly, the last sentence is simply wrong.

The cost calculation is incomplete because Hefti and Staehelin-Witt do not analyse the effects of the financial sanctions on the state and the parastatals. They also do not consider the consequences for the apartheid regime, for example in financing the very costly military forces and the police. In this regard, another point needs to be made: The losses on the forward book (gold and dollar swaps) were allocated to a special settlement account of the Reserve Bank (GFECRA)[19] that accrues directly to the government as debt. In the first five years, from 1980 to 1984 (31st of March), these currency losses transferred to the state totalled R1547 million, and from 1985-1989 R12073 million. It is not clear from the statistics how much of these losses were subsequently reversed due to improvements in the rand exchange rate or the gold price. Judging by gold price and exchange rate movements, this cannot be assumed to have been extensively the case. It is also not clear how much of these losses were due to losses on forward transactions; they could also originate from currency losses on regular foreign debts. There is evidence for the data's reliability: According to statistics, from 1978 until the end of 2001, loans of R47,4 billion were transferred to the GFECRA. Information from Tito T. Mboweni, the current Reserve Bank Governor, shows that effective losses assigned to the fiscus in the same time period totalled R40,8 billion: "Moreover, the oversold forward book, which

[19] Gold and Foreign Exchange Contingency Reserve Account (4108M). The balance on this account forms part of the central government's domestic debt.

causes the negative value of the NOFP[20], has resulted in enormous costs to the fiscus. In fact, the losses on the forward book were the major contributor to the R40,8 billion losses incurred by the fiscus for the period 1978 to 31 December 2001 on the Gold and Foreign Exchange Contingency Reserve Account." (Mboweni 2002, §83).

The settlement account already existed in the 1960s. However, it gained a very different meaning after fixed exchange rates were abolished and the South African Reserve Bank in 1975 began participating in forward transactions. From 1975 until 1981, that is also throughout and after the Soweto crisis, no losses were recorded on the GFECRA. From 1985 to 1989, the losses accrued and transferred to the state were nearly $5 billion, which equates to $1 billion per year (maximum figures). In the four years from 1990 to 1993, a further $2,3 billion was debited to the state's budget. Even if a part of these losses cannot be entirely attributed to the financial sanctions and the forward transactions, the losses for the state alone are significantly higher than Hefti and Staehelin-Witt's estimate for the whole economy of $130 million per year. There were further enormous losses from 1998-2002[21] until the Reserve Bank could finally close the forward book and build up foreign currency reserves, to show positive international liquidity. The size of the effective losses still needs to be researched in greater depth.

The critical point here is not only the size of the losses, but firstly that these losses were direct costs for the central government – the most important role player in the apartheid regime. Secondly, the largest part of these losses accrued in February 1989 and 1990: the converted figures are $3,37 billion, which is $1,6 billion per annum. In February 1989, the central government was transferred losses of R8604 million as debt. At the time, this loss was nearly four times the external debt of the central government and 13% of its internal debt! As such, it was a third higher than the total (official) military expenditure of the apartheid state, which was very high at that time. When we consider Switzerland's larger GDP, this would be equivalent to a debt transferred to government in early 1989 of roughly 11 billion Swiss Francs, more than a third of the central government's expenditure that year. Converted for the USA, the figure would be $186 billion (at 1989 prices), which is significantly more than the cost of the Iraq war in the first year.

These figures show that the financial disaster escalated until early 1989: Negative international liquidity had increased precariously and was significantly larger than in 1985, when South Africa declared a moratorium on the repayment of foreign debt. The state coffers were therefore burdened with unsustainably high costs. This was the situation when Botha suffered a stroke, De Klerk was elected party president and later appointed president. In mid-1989, when it should have dawned on even the most recalcitrant business leaders in South Africa that the apartheid regime would not have a future, the South African Reserve Bank Act was passed. This Act cemented the Reserve Bank's independence from government. The new Act held that currency and gold price losses and gains that resulted from forward transactions would be transferred to the

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[20] What is today referred to as "International Liquidity" in South Africa's statistics, used to be called "Net Open Forward Position" (NOFP)

[21] According to own calculations based on SARB Quarterly Bulletin statistics

government (§27 and 28 of the Act). After apartheid ended, taxpayers had to pay for the losses that resulted from the financial sanctions and from circumventing sanctions. It took 10 years after the election of the new government in 1994 until South Africa recovered from this catastrophic liquidity crisis. Only from 2003 was South Africa's negative liquidity changed to positive liquidity, and currency reserves could once again be built-up. In summary, the state incurred tremendous losses.

On the 1st of March 2004, Tito T. Mboweni announced that the forward book had been closed and that a positive international liquidity balance had been reached. On this occasion, he described the economic burden South Africa was exposed to, due to the negative international liquidity inherited from apartheid: "Viewing the risks that were being transferred from the market to the SARB, the Government and the taxpayer and back to the market and comparing them with the real flows in our economy, the real flows in the economy pale into insignificance. South Africa's financial account had a surplus of R 9 billion in 2000, while it had a current account deficit of around R 3,7 billion. Capital inflows amounted to R 7 billion in 2001, while the country had a current account deficit of round R 1,7 billion. This implies that a net amount of around R 6 billion flowed into South Africa in both those years. The Anglo American Corporation/De Beers Mining Company restructuring transaction amounted to approximately R 24 billion and this amount represented approximately 10 % of the forward book exposure at its peak of USD 28 billion in March 1995." (SARB online)

In chapter 6, which contains the conclusions on the role of sanctions in the political transformation process, Hefti and Staehelin-Witt ask: "Would FW de Klerk have begun reforms and been able to implement them without longer delays if there were no economic sanctions? If the answer is no, then economic sanctions contributed to ending apartheid. If the answer is yes, then economic sanctions were retrospectively unnecessary and merely resulted in costs." (120) The authors then again describe the failed politics of reform, the collapse of communism and the changing mood in the National Party as well as the different stages of decisions made by de Klerk. They do not link these events chronologically with the sanctions and the costs of sanctions. According to the researchers, three causes sparked the political transformation:
"1. Failed homeland policies and opposition from the domestic economy
2. Opposition by the black population and the growing black population
3. End of the East-West conflict (the collapse of communism) [...]
In our opinion, these three reasons were sufficient to induce de Klerk and his close circle to introduce reforms. Economic sanctions were not necessary. We hold this, even though economic sanctions did not fail in a signalling role with de Klerk. When asked, where South Africa would have been without the reform process, de Klerk replied retrospectively: 'We would not have exported a single kilo of grapes, a barrel of wine, or a ton of coal. The whole world and an overwhelming majority of all peoples in South Africa were united in the goal of toppling the regime.' [...]
De Klerk thus expected increased economic sanctions if apartheid was not abolished. With this view, however, he was in the minority. In 1989, the year before his speech that set the transformation process in motion, only 42% of white South Africans expected that economic sanctions and private sector economic measures against South Africa would

intensify [...]. The South African economic newspaper, the Financial Mail, justified the view that there should be no fear of further economic sanctions by using the usual public choice theoretical arguments. According to these arguments, sanctioning countries do not implement sanctions that negatively affect them." (123f.)

The weakness of this argument is that the extremely precarious international liquidity position would have been known to de Klerk, as the head of government, but not to the South African public. It was kept secret. Further, the authors make a flawed argument: In the USA and other countries, economic interests were not the only decisive factors on whether sanctions were implemented. Rather, sanctions were implemented against the will of government representatives close to industry. Two new law proposals for increasing sanctions were already before the US Congress, and would have been dealt with during the course of 1990.

Hefti and Staehelin-Witt conclude: "Economic sanctions did not bring about the political change in South Africa. Renowned economic experts share this opinion." (126) As proof, they again cite the same economic experts they already use as central witnesses throughout the study. A further conclusion is: "An important reason for the ineffectiveness of economic sanctions was the small cost for the white population." (127) Here again the study misses convincing evidence. The initial public choice idea is not really followed up, since the researchers do not examine whether it was the pressure from public opinion, or the increasing pressure of economic sanctions on the economic elite and government that gave the impetus for negotiations. For the authors, there are only two public choice role players in the transmission mechanism analysis of chapter 6: The government – particularly de Klerk – and the white voters.

Part III
The Dismissal

In chapter 7, as announced in their introduction, the authors dismiss the accusations of the KEESA, that is of Jubilee South Africa:
1) Did Switzerland extend apartheid? The answer is inevitable given their flawed study: "Retrospectively, one cannot speak of a success of economic sanctions, though this was not clear ex ante, as always. Switzerland did not prolong apartheid by not joining in with the economic sanctions imposed by other countries, according to the results." (130)
2) Did Switzerland give loans to the human rights violating apartheid regime? The answer: "The study does not take a position on this accusation" (131).
3) Did Swiss firms and banks profit from apartheid? "That firms in South Africa also made profits is in line with their core mandate. If, and how much, apartheid laws increased profits after negative effects are subtracted was not examined in this study."(132)

That the extension-of-apartheid question was even asked and found its way into the National Science Foundation's media briefings is in part because of the authors' erroneous opinion that it is a central element of the reparations lawsuit brought by apartheid victims against foreign companies and banks. But the extension question – as is the profit question by the way – is legally meaningless. It was contained in the charges submitted by Ed Fagan. However, it did not feature in the lawsuit initiated by the self-help organisation Khulumani, which is supported by Jubilee South Africa and the International Apartheid Debt and Reparations Campaign. This lawsuit was submitted in the USA by the attorneys Michael Hausfeld and Agnieszka Fryzsman and speaks of "aiding and abbetting" apartheid. In any case, the study cannot claim to have answered this question. If the lawsuit is admitted before US courts, which is still not certain in January 2008, then the case will be about the manner in which the charged banks (among them UBS and Credit Suisse) supported the apartheid regime. An investigation of the second question that the researcher raise and do not answer (i.e. on Swiss loans to the apartheid regime) would be much more politically controversial from the perspective of the campaign and the reparations lawsuit. It would also have been relevant from a public choice theory perspective. (...)

The final study cost over 180,000 Swiss Francs. No bank would have paid so much for such poor research work. But taxpayers paid for the study, and the incorrect conclusions on prolonging the apartheid regime were effectively publicly disseminated by the National Science Foundation. The alleged ineffectiveness of sanctions is now part of the pool of arguments that can be conveniently recalled for political purposes under the guise of scientific validity.

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