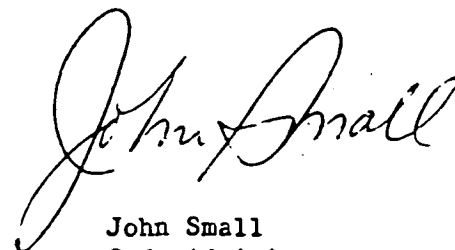


Corporations and the UN Centre Against Apartheid. Exchanges of views were held with members of the South African Embassy in Ottawa and the Department of Foreign Affairs in Pretoria. In South Africa discussions also involved representatives of trade unions, management, business and industry associations, Black and White Chambers of Commerce, the South African Institute of Race Relations, Churches, universities and many other groups and individuals.

I am indebted to the foregoing individuals and organizations for their generous contributions of time and information; to the Canadian companies and their South African affiliates for their ready cooperation in an initiative not of their choosing; and to the Department of External Affairs and the Canadian Embassy in South Africa for their helpful logistical support.

Notwithstanding the kind assistance of those mentioned above, the comments and views included in this report are entirely my responsibility.


John Small
Code Administrator

Ottawa
31 May 1988

II BACKGROUND

1987

The environment in which Canadian firms and their South African affiliates operated in 1987 was scarcely more conducive to business as usual than the year before. In Canada, the hostility to apartheid amongst the general public and organized anti-apartheid groups continued unabated. It was manifest in the continuing pressure on Canadian companies to disinvest their South African assets and on universities and colleges to divest themselves of shares in firms involved in business with South Africa. This resulted in a record number of company disinvestments and a spreading trend among academic institutions to withdraw their endowment fund investments from South Africa-related enterprises. Pension funds have not been similarly affected because they are subject to legislative constraints which prevent their trustees from acting on other than financial considerations, e.g., moral or political.

In South Africa, after years of recession and stagnation, the economy in 1987 grew in real terms at an annual rate of 2.5% (less than 1% in 1986) and is expected to reach about 3% in 1988. Inflation was down from 18.1% in 1986 to 14.7% last year. The foreign exchange value of the Rand recovered substantially in 1987 and this contributed to the easing of inflationary pressures. The current account remained in surplus and foreign trade held up reasonably well, despite sanctions. Export losses in North America and Europe were largely made up in Middle Eastern and Asian markets. While coal exports were down, this seems to have been as much the result of a world-wide surplus as of the effect of sanctions. Agriculture in South Africa benefited from the best rainfall in years, though the benefits were mitigated to a degree by uneven distribution and flood damage in some areas. The Government's policy of fiscal and monetary stimulation, after two years of disappointment, began to pay off in the second half of 1987. Bank credit over the year jumped by 22% and there was a general strengthening of public demand.

Against these modest improvements in the economic situation must be set increasing gloom and anger amongst middle and lower income South Africans (especially Whites) whose position is worsening. The percentage of income spent on taxes has doubled in the past four years and much of the blame is being accorded to the growing cost of defence and security, now 23% of the national budget. More is being spent on the war in Angola and the State of Emergency has added to domestic security costs. A small drop in White, Coloured and Asian unemployment has been more than offset by the growing number of Black unemployed, estimated at just over one million by the Government but variously placed at three to six million by independent authorities. Disinvestment by American, Australian and Canadian firms continued throughout 1987 under the influence of the sluggish South African economy and pressures from anti-apartheid partisans. An additional factor for American firms was