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Research summary PNR42+

Economic relations between Switzerland and South Africa, 1945-1990

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Preliminary observations

Before briefly presenting the results of our study on the economic relations between Switzerland and South Africa, it is important to stress that both the form and content of this research are influenced by the conditions under which it was carried out. The research is unbalanced, due to the extremely limited access the authors were given, in both Switzerland and South Africa, to archives from the post-1970 period, particularly as related to financial issues. While some 250 pages of the study are devoted to the period from 1945 to the end of the 1960s, only approximately 50 pages deal with the later phase. The time between the early 1970s and the official end of the apartheid regime is, however, the most interesting and significant in regard to economic relations between the two countries, since it coincides with both the hardening of the apartheid system and the implementation of international sanctions against the regime.

Despite the constraints and limitations, this study makes several contributions. First, it establishes a major body of statistical data on the basis of which the history of commercial and financial relations between the two countries over nearly half a century can be traced.

Second, this report confirms that Switzerland had close, ongoing relations with South Africa during the period in which the National Party institutionalized and then reinforced the apartheid system. The ties were particularly strong in the area of capital exports and in connection with the marketing of South African gold.

Finally, this research makes an essential contribution by providing detailed analysis of certain key dossiers and, in particular, of the 1945-1968 period, drawn from first-hand sources. This helps illuminate the motivations and strategies of private and State actors in the two countries, and highlights the importance they placed on continuing and strengthening their economic relations.

This summary presents the principal results of the research as related to the course of commercial and financial relations between the two countries during three periods: 1945-1961, 1961-1968 and 1968-1990.

1. 1945-1961: growing interest in South Africa within Switzerland's economic community

During the immediate post-war years, when trade with European countries was still highly encumbered, South Africa represented a not insignificant outlet for Swiss products. Indeed, Swiss exports increased roughly 460% between 1945 and 1948. This "golden age" was not to last, however. Swiss sales were to suffer from measures restricting imports, which the South African government imposed in 1948 to address the imbalance in its foreign accounts. Our study shows the extent to which the nature of the economic relations between the two countries shifted course at that point, with trade giving way increasingly to financial transactions. The role of South Africa was gradually reduced to that of a complementary market for certain Swiss industrial sectors. Moreover, the distribution of Swiss products in the South African market would be dependent on factors difficult for Switzerland's industrial community to control – relying largely on the willingness of the Swiss banks and authorities to link the flow of goods to capital flows, and on the pace of growth in the South African economy.

The greater role of capital operations in the economic relationship occurred as a result of the increasing convergence of interests in that area. The South African government needed foreign capital to finance development, especially in the mining sector, while the large Swiss banks—the Union de Banque Suisse (UBS), Crédit Suisse (CS) and Société de Banques Suisses (SBS)—were seeking safe and profitable placement opportunities. Furthermore, the three most important Swiss banks were highly interested in a rare metal abundant in the South African soil: gold. UBS's creation of the South Africa Trust Fund in February 1948, in Zurich, reflects this interest. Moreover, the principal banks agreed, in 1950, to grant an initial loan to the South African Union, to be followed during the course of the decade by a long series of credits and loans granted not only to the State, but also to South African financial and mining enterprises. The granting of these first loans from Switzerland to its South African partner was to lead to stronger ties between the leaders of the major Swiss banks and the leaders of the South African government and its principal enterprises. The strength of these ties would contribute to making South Africa a trusted partner of Switzerland.

Our research points to the driving role played by UBS—the smallest of the three large banks—in strengthening the financial links between the two countries. Competition with CS and SBS appears to have been a major influence: UBS, which had a significantly smaller presence abroad, assumed a more aggressive role in conquering new foreign markets.

Despite extremely limited access to statistical data on financial flows between the two countries, our research shows the following:

- In terms of Swiss capital exports, in the form of loans and credits, the data published to date in Switzerland, particularly by the Swiss-South African Inter-departmental Working Group, are undoubtedly gross under-estimates. In fact, our research revealed a number of operations not identified by the group for the period from 1950 (when the first loan was granted) to 1961, and our calculation of the total loans and credits is roughly 20% greater than the group's figures.

- According to our calculations, based on statistical data from the South African Reserve Bank (SARB), Switzerland, in the 1960s, represented 2.5% of direct investment and 8.0% of indirect investment in South Africa. According to this, Swiss funds represented 4.0% of all foreign placements in the South African Republic, putting Switzerland in fourth place among foreign investors in South Africa, after the three great powers—Great Britain (59.0%), United States (13.0%) and France (5.2%).

2. 1961-1968: Initial international reactions to the wave of repression in South Africa, “moral condemnation” and Switzerland’s refusal to impose economic sanctions

In the context of increasing international pressure on the Pretoria government, Switzerland announced on 6 December 1963 that it would prohibit exportation of war materiel to South Africa. However, the prohibition had numerous loopholes, as it did not apply to war materiel manufactured abroad under license. Other than this measure, and apart from “moral condemnation” of the apartheid regime expressed on various occasions, Swiss authorities refused to undertake any economic sanctions. This prudent and restrained position allowed for the continuation of economic activity between the two countries.

The increase in capital exports to South Africa was much more pronounced than was the case with trade in goods (primarily machines and chemical products in exchange for food products and precious metals). According to the statistical data of the SARB, Switzerland represented 4.5% of direct investment and 8.3% of indirect investment in South Africa in 1968. This development was encouraged by the highly attractive prospects for profit that South Africa offered, its relative political stability, and the possibility of circumventing the potential intensification of sanctions against Rhodesia (today Zimbabwe). The prospect of a bilateral agreement to avoid double taxation of dividends probably played a role as well, though the negotiations were prolonged and the agreement was reached only at the end of the period (July 1967). The signing of the agreement marked a further tightening of economic ties between the two countries. Favoring Swiss investments in South Africa at a time when the nationalist government was seeking foreign capital, the agreement can only be construed as support for South Africa’s leaders on the part of Swiss authorities and businesses.

The growth of Swiss investments in the apartheid nation received increasing international criticism. This was of concern to the federal authorities and, particularly, to the Département politique fédéral (DPF). In order to defuse the criticism, the DPF proposed that the granting of new credits by Swiss banks be submitted for authorization at the start of the negotiations. The BNS opposed this, citing the positive role that the flow of Swiss capital played in South African growth and emphasizing that Switzerland was in competition with other lenders (notably, the United States). While the banks themselves offered strong opposition, this position was echoed by the industrial export sector, which expressed unreserved support for the banking community. Given the scope of the opposition, the DFP conceived a more accommodating approach, suggesting to the South African Central Bank in 1968 that it make Switzerland “disappear” from its statistics on movements of foreign capital.

Another important factor was the gold market, which until 1968 was linked to the Bretton Woods fixed exchange rate system managed by the IMF. The credibility of this regime was called into question during the 1960s, and the gold market had a number of episodes involving outbreaks of market speculation. In this context, South Africa’s gold sales on the London market were of fundamental importance. On two occasions during this period, South Africa discussed with Swiss authorities the possibility of moving sales to Zurich, most likely in anticipation of possible British sanctions in response to South Africa’s support for Southern Rhodesia. This encountered opposition at BNS, however, which feared repercussions from such a maneuver, both domestically and internationally. However, tension was dispelled in 1968, when the IMF Board of Governors decided to separate the gold market, putting an end to the reticence of BNS.

3. 1968-1990: Spiraling repression in South Africa, mounting international pressure and Swiss financial support

This long period—for which the authors had practically no archival access—coincides with the progressive isolation of the apartheid regime, culminating in the adoption of restrictive economic sanctions by the UN in 1985-86. Switzerland officially refused to associate itself with the sanctions, while reiterating its moral condemnation of apartheid. This attitude, which received increasing criticism domestically and abroad, strengthened the confidence of South African business and leaders in their Swiss partner.

Though Switzerland's share of South Africa's exports grew to 6.2% in 1980, it fell to 3.6% by 1985 and to 2.6% by 1990. The figures for Switzerland's share of South African imports are weaker and more stable: 1.6% in 1980, 2.1% in 1985 and 2.2% in 1990. However, South African diamond exports to Switzerland exploded between 1985 and 1989, as the De Beers enterprise feared that Great Britain would adopt additional sanctions targeting the precious metals trade. Thus, it shifted its sales focus from London to Lucerne, where its subsidiary was headquartered. When the risk of sanctions dissolved in the early 1990s, diamond exports to Switzerland fell back to their normal level.

In terms of financial flows, direct and indirect Swiss investment in South Africa continued to progress, representing 10.3% and 13.1%, respectively, of the total in 1990 (again, based on SARB statistics). The increase was particularly notable in 1981. A peak was reached in 1985, when the stock of Swiss investments was 1.43 billion constant rands. In 1986, there was a decline of 29.4%, which continued less steeply until 1990. The drop was clearly linked to the deterioration of the economic and political climate in South Africa, with pressure from large-scale financial sanctions imposed by the vast majority of Western powers, including, notably, the United States. However, despite the declining stock of Swiss investments in South Africa, Switzerland's share of total foreign placements made in the country, rather than declining, increased noticeably. One conclusion would be that as foreign companies disinvested in South Africa during the second half of the 1980s, Swiss companies followed the trend, but to a perceptibly lesser degree. Thus, during the period in which international sanctions against the apartheid regime were by far the most severe, the importance of Swiss investments for Pretoria increased in relative terms.

This pattern of investment led to stronger domestic and international criticism of Switzerland's financial relations with the Pretoria regime. In response, the Federal Council decided in January 1974 to introduce a ceiling on exports of capital to South Africa. Our study emphasizes three points in this regard. First, the origin of this decision by the Swiss authorities indicates no desire to use credit flows as a weapon to create pressure against apartheid. Second, the measure did not target the exportation of Swiss capital as such (the ceiling was high), but rather its excessive growth, and hence its increasing visibility. It was this that created a problem, since it jeopardized the positions acquired by Swiss business, which was now being challenged on this account. A third conclusion may be drawn: If the Federal Council had truly wished to limit investment or loans to South Africa, it would have taken measures that were more restrictive. In fact, rather than putting a brake on capital exports, the provisions adopted by the Swiss government were simply an attempt to placate national and international public opinion while simultaneously rendering the exports less detectable. In short, it was a matter of pulling the wool over the eyes of the public to quell criticism. Due to the fact that there were major limitations on applying the ceiling, it had only a marginal effect, at best, on the volume of credits and other advances granted to South Africa.

In terms of the gold market, the Swiss banks quickly assumed London's place in March 1968, creating a buying pool. After some hesitation, South Africa decided to take advantage of the opportunity, and major quantities of the metal began to be marketed through Zurich. According to the estimates of the Swiss-South African Inter-departmental Working Group, Swiss imports of gold pieces from South Africa rose from slightly over 400 million current francs to over 1.5 billion between 1968 and 1984. The figure began declining again in 1985, ending the period around 550 million francs. Imports of gold bullion and ingots grew sharply until 1981 and then stabilized around 20 billion francs per year.

Final observations

The present research indicates that converging interests of Swiss business and the Pretoria government led to stable economic ties between the two countries, weathering all circumstances. Neither the sometimes harsh discussions on sensitive dossiers, the occasional tug-of-wars within the often divided business world, nor the understandable reticence of the Swiss government, the federal Departments or the Swiss National Bank could undo the close ties created since the 1950s between the leaders of the major Swiss banks and leaders of South Africa's government and major businesses. The strength of these ties helped make South Africa a trusted economic partner of Switzerland.

A study of the archives reveals, in many instances, the importance of personal relations between the representatives of the major banks and South African business in restarting negotiations when authorities of the two nations had reached an impasse. Thus, it was often the case that the arguments put forward by the banking community, giving priority to economic considerations, won out over political reservations, which were presented with excessive timidity by the federal authorities.

The personal relationships forged between Swiss financial leaders and South African leaders also played a decisive role in the entry of major banks in the South African gold market. The Pretoria authorities knew that by giving Swiss banks a favored position in the gold market, they were wooing reliable and discreet partners who could, when the moment was opportune, furnish the capital South Africa needed.

During the period in which the South African regime was isolated—beginning in the 1960s and culminating in the mid-1980s with the adoption of restrictive economic sanctions by the UN—the conciliatory position of the Swiss government, which issued moral condemnations of apartheid but refused to associate itself with sanctions, strengthened the trust of South African business and leaders in their Swiss partners. Subsequent events demonstrated that this trust was well-founded.