Modeling the Financial Embargo on South Africa

Ghada G. Mohamed ,Manuchehr Irandoust

Abstract

The paper examines the effectiveness of the financial embargo on South Africa, which was imposed in 1985 and lifted in 1993. The theoretical framework is a simple small open economy version of Ramsey©ú Ê s growth model calibrated to South African conditions. The South African embargo event is modelled by limiting the country©ú Ê s ability to borrow through imposing a proportional tax on foreign borrowings to capture the disinvestment during the embargo period, and by assuming apartheid as a constant tax on foreign borrowings to South Africa we incorporate the effect of the embargo on South African apartheid. Using quarterly data from 1960 to 2008, our empirical findings, based on the logit and intervention methods, indicate that (i) there is a negative relationship between financial isolation and foreign investment and (ii) there is a negative link between the embargo and the degree of apartheid. The policy implication of our results is that the financial embargo was effective in dismantling South African apartheid.

econmodels.com @ journal of policy modeling 2012, February