BANKING ON APARTHEID

Over the last decade, church investors have been actively concerned about investment in South Africa by U.S. corporations and banks. As South Africa has dramatically escalated its international borrowing in recent years, the role of banks has become increasingly important. This "CIC Brief" examines the history of U.S. lending to South Africa and the impact of new loans by U.S. banks. Lists of banks making loans are included, along with excerpts of recent congressional hearings on the issue.

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Since World War II South Africa's economy has witnessed a high rate of growth aided primarily by foreign investment and loans. Foreign investment and loans have played a major role in the development of South Africa's industrial base, trade, and infrastructure. Yet, at the same time that this growth has been occurring, the oppression of the black majority by the white minority has become increasingly systematic.

Though this institutionalization of black oppression – apartheid – has been condemned throughout the world, it has only been in the last ten years that members of the public in the Western world have realized that their own national economies have prospered through the exploitation of black people in South Africa. Western business people have invested money in the South African economy, obtained high returns, and benefitted from the system of apartheid which guarantees a cheap, controlled pool of black labor.

Arguments have been presented by corporate interests in particular and other persons that investment in South Africa is "for the good." Many argue that an embargo in loans or corporate investment is not in the best interests of those persons who bear the brunt of South African oppression – the black majority. Yet, it is clear that foreign investment has not lessened the oppression of blacks in South Africa. In fact, the system of apartheid has grown and developed concomitant with the growth of foreign investment and loans. If anything, Western business presence has served only to strengthen the white minority regime in South Africa.

The Role of U.S. Banks – A Brief History

The single most important sector in foreign investment since 1964 has been private long-term investment on a direct basis. In particular, this refers to bank loans. Loans have been attracted by the relatively high local interest rate.

South Africa obtains most of its capital from the European money markets. Many subsidiaries of U.S. banks operate in the European market or invest in a European bank. An illustration of the latter is the participation of U.S. banks in Standard Bank, England. At one time, Chase Manhattan Bank had and First Pennsylvania currently has monies invested in Standard. Thus First Pennsylvania is not directly involved with the South African government, but it is involved in indirect loans. In the United States, First Pennsylvania's policy is to avoid participation in loans to South Africa. ITEM I lists the U.S. banks known to have loaned monies to the South African government and/or its corporations.

In mid-1973, ICCR published "The Frankfurt Documents: Secret Bank Loans to the South African Government." This publication revealed that the European-American Banking Corporation (EABC) had raised money from banks in the United States, Canada, and Europe to provide secret loans to the South African government and its agencies since 1970. This represented an effort to assist the government of South Africa to overcome serious economic and financial problems. Thus, EABC was providing a vote of confidence in South Africa and its policies with cash.

Prior to disclosure of the Frankfurt documents, U.S. churches, along with other interested groups and individuals, participated in an action campaign against ten U.S. banks that had provided loans of $40 million to the South African government. The campaign began in the late 1960s and involved letters of protest, delegations to the banks, questions and resolutions at shareholders' meetings, withdrawal of funds, picketing, leaflets, and demonstrations. In November 1969, the loans were closed, largely as a result of the action campaign.

New Loans

Since the beginning of 1976, South Africa has borrowed extensively on the international market. South Africa borrowed $518 million on the Euro-Market in 1975, making it one of the top ten borrowers in the world. But through July of this year South Africa had already borrowed $460 million and appears to be surpassing its 1975 record.

Most of these loans have come from U.S.-based banks or their subsidiaries. Participants in these loans and the recipients are:

- First National City Bank, Chase Manhattan, Manufacturers Hanover, Morgan Guaranty Trust, and Barclays International Limited. $200 million five-year loan to ESCOM, the Electricity Supply Commission of South Africa.
- First National City Bank, Chase Manhattan, Manufacturers Hanover, Barclays and the German banks. $138 million. Richard's Bay titanium mining and smelting project.

A CIC Brief appears in each edition of The Corporate Examiner, a monthly newsletter on corporate social responsibility. Each CIC Brief highlights a particular social area – foreign investment, environment, military contracting, consumerism, or policies affecting minorities and women – and focuses on one or more corporations. It also provides information about action options and resources for issues studied.

Copies of the CIC Brief may be obtained from the Corporate Information Center, Room 566, 475 Riverside Dr., New York, N.Y. 10027. Telephone: 212 870-2295. Price: 1-10 copies, $.60 each; 11-19 copies, $.40 each; 20-49 copies, $.35 each; 50 or more copies, $.15 each.

ITEM I

Banks Known to Have Loaned Monies to the South African Government and/or its Corporations

- Bank of America, San Francisco
- * Central National Bank, Chicago
- Chase Manhattan Bank
- * City National Bank of Detroit
- First Israel Bank and Trust, New York
- * First National Bank of Louisville
- First National City Bank
- * First Pennsylvania Bank, Philadelphia
- Manufacturers Hanover Trust
- * Maryland National Bank
- * Merchants National Bank and Trust Co., Indianapolis
- Morgan Guaranty Bank
- Republic National Bank of Dallas
- United Virginia Bank
- * Wachovia Bank and Trust, Winston-Salem
- * Wells Fargo Bank (N.A.)

* Banks that have publicly stated they will not lend money to South Africa in the future. For example, Maryland National said in 1974 it "does not believe in or support apartheid, will not participate in loans to the government of South Africa, and will divest such loans presently on our books."

– *U.S. Banks Participating in Loans to Chile.* (A consortium of 15 international banks participated in a $125 million three-year term loan to the Central Bank of Chile in 1976.)

Bank of America	Manufacturers Hanover Trust
Chase Manhattan	
First National City (Citibank)	Morgan Guaranty Bank

– *ESCOM*

The Electricity Supply Commission is a parastatal of the South African government whose members are appointed by the government. ESCOM provides the lowest priced steam-generated electric power in the world. It operates 21 power stations and provides 86 percent of the country's power requirements.

South Africa's demand for power is high and increasing. In order to increase energy supplies, ESCOM has projected capital spending in the 1970s to be over $770 million. This money is being raised through issues of stock or debentures and foreign loans.

ESCOM's projection of electricity capacity by the year 2000 is based on water, uranium, and coal usage. Hydroelectric development has been slow because of South Africa's scarce water resources. ESCOM's decision to build atomic power stations has been justified in such areas as South Africa's coastal regions because of the lack of coal in those areas. ESCOM has two nuclear reactors on the drawing boards. These reactors are to be housed in a nuclear plant at Koeberg near Cape Town at a cost of R600 million (approximately $690,000,000). It is expected that by the year 2000, 15 to 25 percent of South Africa's generating capacity will be nuclear stations.

ESCOM began accepting bids to build the reactors in April of this year. The ability to begin the bidding process had been greatly advanced by the receipt of the $200 million five-year loan.

External financing is extremely important to ESCOM's development planning. ESCOM is restricted by law to diverting only a small percentage of its annual revenue (up to 3 percent) into capital development. Thus, given the restrictive nature of this legislation and the mandate to provide electricity at cost, ESCOM has to seek foreign loans to fund capital expenditures.

– *Richards Bay Project*

Kennecott Copper Corporation agreed to enter into a mining and smelting operation near Richards Bay in partnership with the Industrial Development Corporation (IDC), a parastatal of the South African government. The 12-bank loan put together by Citibank for IDC ensures IDC the ability to bring in overseas investment expertise and technology.

– *Xhosa Development Corporation – Transkei*

Hill Samuel of London is thought to be the manager of a recent loan to the Transkei. According to the *South African Digest*, the loan was viewed as important in the strategy to obtain recognition of the Transkei. Citibank was approached to participate in the loan but refused. Transkei is a Bantustan, a Homeland, one of the series of areas developed for blacks only. Though South African whites constitute less than 20 percent of the population, they control 87 percent of the land. Transkei's projected "independence" in October is the first concrete attempt by white South Africa to obtain international recognition and approval for its apartheid system. Loans to the Bantustans at this time can only serve to legitimize this system.

Implications

The strategic implications of the loans are two-fold. The loans to ESCOM and IDC assist South Africa in building a self-sufficient economy, impervious to external pressure. Loans to ESCOM indirectly increase South Africa's nuclear capacity. Together with the enriched uranium supplied by the United States, the building of nuclear reactors in South Africa raises the spectre of South Africa's using nuclear weapons to protect its way of life. South Africa has refused to be a signatory of the Nuclear Non-Proliferation Treaty, and the possibilities of South Africa's using nuclear weapons should not be taken lightly. Furthermore, the loan to IDC will not fund a project that will provide more jobs for more blacks. It puts the lie to Citibank's contention that economic growth in South Africa creates pressure for social change and amelioration of social inequities. In fact, none of the loans mentioned will or can aid in doing what Citibank says they can. (See ITEM III.)

South Africa, in spite of its aim of self-sufficiency, has become more and more heavily dependent on the West for capital and technology. South African corporations, the government, and Western economic interests work together. Far from exerting leverage for changed policies, foreign funds are building South Africa's economy so that it will be better able to resist any external challenges to apartheid. Furthermore, foreign capital flows into South Africa on terms ever more stringently laid down by white South Africa.

Arguments Used by the Banks

The banks have used a number of arguments to justify their support for South Africa.

1. "Banks should not get involved in politics." This argument represents the crux of the issue. The banks are deceiving themselves and the public by saying that loan-granting is nonpolitical. Every action and nonaction has political implications. Banks try to persuade the public to believe that business is ethically and politically neutral. This is not true. All business decisions are aimed, in the long term, at benefitting shareholders and management. Yet the lives of many other people are affected, and they are largely ignored in the decision-making processes.

2. "Banks should not support efforts at economically isolating any country." The recent history of Chile under Allende strains the credibility of banks making that statement. It is interesting that some of the same banks that are providing loans to South Africa are also providing loans to Chile. (See ITEM I.) Yet, under the Allende government, Chile could not obtain funds from any international banking house or organization. Chile was successfully isolated until change occurred within the country.

   It *is* the task of the people of South Africa to bring about any necessary political change. But they can be aided in that task by people outside who wish to have no part in South Africa's repressive economic system. The fact that loans to South Africa are not illegal does not mean that the banks are *compelled* to make them.

3. "South Africa is not the only country to which people have political objections." One cannot justify an immoral act by pointing out that one is also involved in a few others. By being involved in international business, banks expose themselves to several ethical decisions. It is ultimately immoral to say that because one is faced with so many ethical decisions, it is best to ignore all of them and instead consider only one's own self-interest.

4. "Reform, not isolation is the best tactic." To support social advancement of the black population by insisting on a basic minimum wage for all wage-earners and equal pay for equal work is a short-sighted policy. For outside groups to concentrate on advocating that black people should achieve marginal improvements in their pitiful wages is an essentially reformist concept which leaves the racism inherent in apartheid totally untouched.

Conclusion

Withdrawal of loans by international banks would have a profound effect on South Africa. Right now the loans are construed as demonstrating confidence in South Africa's economic stability and growth. Further, many white South Africans believe this to be possible because of their sound internal policy – apartheid, the isolation of the races. Withdrawal would simply isolate the supreme isolationists.

I T E M II

What You Can Do: Action Suggestions for Individuals and Organizations

The involvement of U.S. banks in South Africa constitutes direct assistance to the apartheid government. This involvement questions the credibility of Secretary of State Kissinger's recent statements in support of majority rule in southern Africa and in abhorrence of apartheid.

Critics maintain that it is easier for banks than corporations to withdraw support from South Africa. Corporations with investments in South Africa are hampered by South African law from withdrawing quickly. Banks, on the other hand, may simply cancel the loans.

Shareholders, depositors and others may wish to consider the following steps:

1. writing letters to banks.
2. meeting with bank executives.
3. removing deposits or other accounts such as portfolios and trusts.
4. submitting shareholder resolutions and asking questions at annual meetings.
5. demonstrations.
6. publicity.
7. influence on government. (The State Department could be asked to develop a policy, similar to present U.S. policy on Namibia, discouraging any further loans to South Africa, including the Bantustans. Congress should also consider legislation that would discourage or prohibit further loans to South Africa.)

ITEM III

Excerpts from Congressional Hearings on Bank Loans to South Africa, September 23, 1976

The Subcommittee on African Affairs of the Committee on Foreign Relations of the U.S. Senate held hearings on September 23 to examine U.S. lending to South Africa and the policies covering services of the Export-Import Bank in South Africa. Included below are excerpts from the opening statement by Senator Dick Clark (D-Ia.), and testimony by George J. Votja of Citibank and by Timothy Smith of the Interfaith Center on Corporate Responsibility. Mr. Votja acknowledged during the hearing that Citibank had loaned approximately $300 million to South Africa and that another loan of several hundred million dollars was currently under consideration.

Opening Statement by Sen. Dick Clark.

.... A question of greater relevance [than whether U.S. companies should withdraw], however, may concern another aspect of American business involvement in South Africa – one about which little is known – U.S. lending. Loans to South Africa by U.S. banks and their branches abroad have increased dramatically in the past year and it is likely that, in the coming months, South Africa's efforts to acquire loans will be even greater than in the past. At least in the short term, South Africa has no choice but to seek ever larger loans to cover what has become a serious deficit in its balance of payments....

The extensive lending by U.S. banks has certain implications for us in the United States. Certainly it is an important aspect of the United States commercial relationship with South Africa. Banks with large loans in South Africa have some interest in its continued economic stability. But its economic well-being may depend in large part on its ability to respond to growing political and social unrest. Some observers have suggested that American bank interest entitles – in fact requires – that U.S. banks review concerns about South Africa's stability with representatives of the South African government. At least one U.S. bank has already done so and expressed its belief that no further medium or long term loans should be made to South Africa until there is significant change in that country....

Testimony of George J. Votja, Executive Vice President of Citibank, in charge of the International Banking Group.

.... Inherent in our business philosophy is the deep-seated belief that we earn our way as financial intermediaries by making a tangible economic and social contribution to the communities we serve. Accordingly, we think our presence in South Africa as an agent of economic development benefits all of South Africa's people.

By contributing to the creation of a pluralistic marketplace, we think we assist in the development of a more pluralistic social system. But our ability to influence the social and political setting in South Africa or in any other country is limited. We can affect the situation only in degree. In the strictly political context, there has to be one rule for American multinational corporations wherever they operate. That rule is HANDS OFF! I do not believe that the Senate Foreign Relations Committee, above all other committees in the United States Congress, would want Citibank, as an American multinational corporation, to impose our political or moral judgments on other sovereign governments.

.... In terms of size, on the basis of published data, Citibank is the 12th ranking bank in South Africa. The top five banks – Barclays and Standard, which are British-controlled, the Volkskas, Trust Bank and Nedbank, which are publicly held local institutions – account collectively for approximately 87 percent of total bank assets. We account, according to the published figures, for about 0.4 percent of total assets of the banking system and about 1 percent of total risk assets. Citibank provides a range of services to corporate clients, including local and foreign acceptance financing, term loans, exchange transactions, deposit, payment and letters of credit services....

In our experience, banking opportunities exist only where it is possible for us to make a genuine economic contribution. Insofar as South Africa is concerned, what we do helps to provide jobs for South Africans, including blacks, so-called "coloureds," and Asians as well as whites.

Our major contribution is, of course, made indirectly through the firms we service. We exercise direct control, however, over our own employment policies, and during our 18 years in South Africa we have attempted to do all we can to improve the situation of our own non-white employees. At present, we have 215 employees, of whom 46 (21 percent) are non-white. We think our employment policies are the most advanced in the banking industry....

Testimony of Timothy H. Smith, Director, Interfaith Center on Corporate Responsibility.

...Many of the churches related to the Interfaith Center on Corporate Responsibility are on record through resolutions, words and actions as opposing bank loans to South Africa. They have indicated this to U.S. banks via letters, personal visits, and through their positions as shareholders....

Hundreds of millions of dollars of U.S. loans and $1.5 billion in investments create a major American vested interest in South Africa. As in any major mortgage relationship, the bank has considerable interest in the financial health and well-being of the person paying the mortgage. You become a *de facto* partner in the project. Certainly U.S. banking circles would not be happy if racial strife grew even more extensive in South Africa and economic chaos resulted. They have a vested interest in economic and social stability. Whether such stability is gained at the price of oppression does not seem important....

Foreign loans insure the overall budget is in a strong position and the economy is viable. These factors relate directly to the strength of the military and police which are determined to preserve white power. I do not feel that it is an overstatement to say that U.S. bank loans subsidize South Africa's military capability and thus are a direct resourcing of machinery for oppression of the black majority.

.... Likewise, it is a simplistic smokescreen to pretend that loans to the South African government are simply business and not politics.... While South Africa, for political reasons, is urgently trying to reach economic self-sufficiency and thus has established key agencies such as ISCOR and ESCOM, loans to these agencies or to government departments such as the Department of Finance are clearly political in nature. When we recognize that ESCOM is planning to build two nuclear reactors, the political seriousness of these loans takes on even greater weight.