OBJECTIVES FOR PRESSURE ON SOUTH AFRICA

by

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The year 1990 is an important focal point for pressure on the South African economy. By the Spring of that year a new stand-still agreement covering some $11 billion of debt must be negotiated with South Africa's foreign bank creditors before the present agreement runs out on 30 June 1990. In addition to this $11 billion falling due, over $1 billion of bonds, which are not covered by the stand-still agreement and are being paid on time, are also coming due. An indication of the amounts falling due outside of the stand still agreement is shown by the projected yearly payments of debt guaranteed by the South African government in Table I. These figures include, among other commitments, all the guaranteed bonds of the government and parastatal corporations such as ESKOM; and these payments clearly show a peak of about $2 billion for each of the years in the period 1990 and 1991.

South Africa is hoping to set its economic house in order by that time so that there will be no question that the stand-still agreement will be renewed with little additional repayment in that year. But the South African economy is in a difficult position. The country's growing population requires a growing economy, which requires more foreign exchange to buy the essential capital imports necessary to keep the wheels of industry turning. However, when these essential imports increase, the country does not have the foreign exchange to pay off the bankers. On the other hand, the more South Africa pays off the bankers, the less there is to permit growth of the economy.

Both the South African Council of Churches and the Bishops Conference have urged that economic pressures be used to help bring about social change and to avert violence in that country. Thus to be sure that South Africa's economic house is not in order, energy must be focused on:

1. **FINANCIAL SANCTIONS:**

   a. Pressure all the banks on the stand-still negotiating committee to require as much as 15% repayment per year under the agreement to be negotiated in 1990. A large repayment

TABLE I. FOREIGN CURRENCY REPAYMENTS UNDER GUARANTEES FROM THE SOUTH AFRICAN GOVERNMENT, including principal and interest payments in million of currency units.

Year	1989	1990	1991	1992
U.S. Dollars $	670	660	1,405	460
German Marks DM	246	1,006	1,072	492
Swiss Francs Sfr	256	566	184	2
French Francs Ffr	715	671	621	578
U.K. Pounds £	28	128	7	2
Other Currencies *Expressed as $	94	95	78	73
*Total in $	1,240	2,020	2,310	900

*Dollar amounts are based on the exchange rates of 30 June 1988.
Source: **Financial Mail**, 7 October 1988 from the **Government Gazette**.
This table does not include other foreign government guaranteed debt which is also repaid on schedule.

is vital to put pressure on South Africa in 1990. The agreement should also be short-term, preferably of one year duration.

b. The cut off of trade credits for South Africa with the requirement that all shipments must be prepaid. A total cut off by all nations would require South Africa to provide some $4 billion to $7 billion for its trade finance in the first year. Both private and official government banks and insurers should be targeted. See Table II for the amounts of these credits that are insured, and Table III provides the names of the official insurers and lenders for each of the 5 countries with banks on the negotiating committee.

c. Banks should make public policy statements that no new conventional lending will be started until South Africa has dismantled the apartheid system.

d. Banks in the London and Zurich gold markets will be requested to separate South African gold on the market so that investors can specify non-South African gold. See Trade Sanctions below.

International campaigns focused on the major lending banks are being organized and polical pressures are needed in the U.K., Japan, and Europe to stop official lending and lending guarantees for export to South Africa.

Churches internationally are focusing on the members of the bank committee which will renegotiate the South African debt for June 1990. This committee is made up of banks from five countries:

F.R. Germany - Dresdner Bank, Deutsche Bank, Commerzbank
France - Credit Lyonnais, Banque Indo-Suez
Switzerland - Union Bank of Switzerland, Swiss Bank Corporation, Credit Suisse
U.K. - Barclays Bank, Standard Chartered, National Westminster
U.S. - Citibank, Manufacturers Hanover, Morgan

Letters have already been sent to some of the German and French banks as well as The Bank of Tokyo, asking for meetings to discuss their policies. The Bank of Tokyo has provided an excellent policy statement in response to the letter. If these other meetings are not successful, U.S. customers of these banks will be contacted.

TABLE II. COMMITMENTS FOR SOUTH AFRICAN TRADE OF INSURERS IN THE INTERNATIONAL UNION OF CREDIT AND INVESTMENT INSURERS (Berne Union) exclusive of unused commitments as of 30 June 1986.

COUNTRY	AMOUNT INSURED expressed in millions				
	U.S. Dollars		Domestic Currency		
	Total	(Short (Term		Total	(Short (Term
F.R.Germany	3,028	449	DM	6,658	988
France*	1,900	27	Frf	13,000	190
Switzerland	371	34	Swf	666	60
U.K.	2,598	92	£	1,698	60
U.S.	7	0			
Others	638	190			
TOTAL	$ 8,542	792			

*French insurance data was not available from the source for 30 June 1986; the amount at that date is assumed to be equal to the cover in French francs on 31 Dec. 1985.

2. **TRADE SANCTIONS:**

Implementation of further sanctions on imports from and exports to South Africa:

a. Coal, South Africa's second largest export, should be excluded by Ger-

many, Japan and Italy.

b. Gold, South Africa's largest export by far, amounting to over $7 billion in 1985, must be discussed and the threat of sanctions must become a reality.

The World Gold Commission was formed by church and anti-apartheid groups in London in 1988 with the express goal of seeking gold sanctions and separating South African gold producers from those elsewhere in the world. The commission points out that South Africa produces only 600 tonnes out of the 1500 tonnes of gold produced each year, but there are central bank reserves of 35,000 tons. Thus if governments were to institute sanctions, they could release gold from their reserves to compensate for the loss of production and maintain constant prices without damaging their reserves.

A proposal has been made in the U.S. to require certificates of origin for all gold products entering the U.S. If such legislation were instituted in 1990, it would force the Italian jewelry industry to seek other gold suppliers, since well over half their gold supplies come from South Africa.

c. Other commodity sanctions should be instituted with European countries cutting off imports of agricultural commodities, etc.

Pressure must be exerted on Taiwan and Korea to prevent their taking up the slack in South Africa's exports created by the above sanctions.

TABLE IIA. TOTAL OUTSTANDING COMMITMENTS OF THE INSURERS OF THE FEDERAL REPUBLIC OF GERMANY AND LENDING BY YEAR OF THE KREDITANSTALT FÜR WIEDERAUFBAU FOR SOUTH AFRICAN TRADE in millions of Deutsche Marks.

Year	Insurance Cover	Kreditanstalt* für Wiederaufbau
12/1982	NA	0.5
12/1983	NA	278.6
12/1984	6326	19.3
12/1985	6035	69.7
6/1986	6658	———
12/1986	NA	19.1
12/1987	NA	32.8

NA = Data not available.

*Source: Annual Reports of the Kreditanstalt für Wiederaufbau. (Industrializ Africa)

Table III. OFFICIAL GOVERNMENT TRADE CREDIT AGENCIES AND INSURERS OF TRADE CREDITS.

Country	Insurers	Trade Credit Providers
F.R. Germany	Hermes Kreditversicherungs	Kreditanstalt für Wiederaufbau
France	COFACE (Compagnie Francaise d'Assurance pour le Commerce Exterieur	Banque Francaise du Commerce Exterieur
Switzerland	Gesellschaft für die Exportrisikogarantie (GERG)	None
United Kingdom	ECGD (Export Credit Guarantee Department)	None
U.S.	Export-Import Bank	Export-Import Bank

The U.S. Export-Import Bank is forbidden by law from extending normal credits to So African entities. The Swiss GERG is reported to have ceased insuring such credits.

South Africa Facing a No-Growth Future

Tightening Sanctions Portend Economic Bloodletting

By ROGER THUROW
Staff Reporter of THE WALL STREET JOURNAL

JOHANNESBURG, South Africa—Since the initial blast of economic sanctions three years ago, frantic South African businessmen have been beating a path to the office of Fred Bell, the country's sanctions-busting guru. To each of them he has given this less-than-mystical advice: "You just gotta survive."

So far, so good. New technologies are emerging locally to beat international bans. Home grown products are replacing hard-to-get imports. New export markets seem to open up as fast as old ones close. Discounts are offered and premiums are paid, but the goods keep moving. A wink here, a nod there, another deal is done. South Africa and its businessmen may be bowed by the sanctions millstone, but they are indeed surviving.

"At the moment, a lot of good is coming from this. We're becoming more innovative and independent," says Mr. Bell, the retired chief of Armscor, the South African weapons maker that has grown to become a giant in response to the decades-old arms embargo against Pretoria. "We have the ability to do what it takes to survive, in the short and medium term."

But, as another round of tougher punitive measures moves through the U.S. Congress and the Europeans and Japanese continue to rattle their sanctions sabres, more and more South African businessmen are looking with horror to the long term, beyond the initial burst of benefits from a siege economy. And they are beginning to question the guru's wisdom, asking, "Survive to what?"

Dire Assessments

The conspiracy of bravado that has surrounded the business community's sanctions-busting efforts is being shattered by dire assessments of what lies ahead if the sanctions noose continues to tighten: little growth, steeply rising unemployment, Third World-type economic controls, escalating social unrest and political violence. The doomsayers have been warning of these consequences since international creditors first called in their loans in 1985. But most businessmen, mimicking the government's defiant go-it-alone attitude, didn't want to listen.

Now, after glimpsing a sanctions-filled future, some leading businessmen are acknowledging that merely surviving is no longer good enough. The emerging slogan in corporate boardrooms is sanctions-containment, not sanctions-busting.

"In this day and age there is no such thing as economic self-sufficiency and we delude ourselves if we think we are different," Henri de Villiers, chairman of the Standard Bank Investment Corp., said in a recent speech. "It is imperative that we do not adopt poses of defiance and bluster."

Instead, business is once-again cranking up its long-ineffective lobbying pressure on the apartheid government to move more swiftly toward social and political reform. This time, though, pressure isn't coming from only the usual cabal of liberal English-speaking businessmen; rather, it's a broader coalition of chief executives smitten by a strong dose of future shock, which, they hope, will also shake Pretoria from its bunker.

Avoiding Isolation

The "signal" sanctions of the past three years—intended to send a message of international impatience to Pretoria—need to be heeded, the businessmen say, to prevent the imposition of "savage" sanctions that could in effect amount to an economic blockade. If more-punitive measures from the U.S. are inevitable, then efforts must be made to keep Britain and West Germany from following suit, they say. The slide into international isolation needs to be checked, they insist, and perhaps reversed.

"Those countries that turn away from the world have remained economic backwaters," Mr. de Villiers warns. "South Africa needs the world. It needs markets, it needs skills, it needs technology and above all it needs capital."

In recent weeks, there have been indications the government may be listening. Quiet pressure from top businessmen combined with British and German threats of more sanctions to convince Pretoria to soften legislation that would cut off overseas funding of opposition groups, and to indefinitely postpone the hanging of the Sharpeville Six, a group of blacks sentenced to die for the mob killing of a black town councillor. Business prodding also was a factor motivating the government to pursue peace talks to end the costly war in Angola.

But this doesn't mean Pretoria is about to cave in to the demands of sanctioneers that it scrap apartheid and move toward genuine power sharing with the disenfranchised black majority. The government's inclination toward reform has been curbed by the threat of the pro-apartheid Conservative Party on the right of the white electorate. And, buoyed by the belief that two-thirds of the economy, the precious metals sector, is sanctions-proof, the government still responds to new sanctions threats with its trademark arrogance.

When asked about the measures moving through the U.S. Congress, which, in the harshest version, call for mandatory U.S. disinvestment from South Africa and a halt to all trade, a spokesman in the Department of Trade and Industry says, "Officially, sanctions don't exist. Therefore, I can't comment. *C'est la vie.*"

Chris van Wyk, the managing director of the Trust Bank of Africa Ltd., cringes when he hears this. "I'm fed up with the feeling that we can go it alone," he says. "We can't ignore what sanctions and disinvestment have done."

In a recent speech, which the bank is widely circulating, Mr. van Wyk flouted the taboo of talking about the costs of sanctions and added them up.

By 1990, capital outflows through disinvestment and debt repayment will amount to about 25 billion rands ($10.4 billion), and the accumulated loss of export earnings through trade sanctions will reach 10 billion rands. The economy will grow little more than 2% a year (less than the rate of population increase), rather than the 5% that could have been achieved without sanctions. As a result, Mr. van Wyk says, the average South African will be 5%-10% poorer by 1990, with unemployment increasing by about 200,000 a year.

"Some South Africans are saying we dare not grow faster than 2.5% because the balance of payments can't take it," Mr. van Wyk says. "That may be true for the short term. But I say South Africa dare not grow 2.5% for the long term. It is too ghastly to contemplate."

In a new book, "Economics in a Revolutionary Society," Ronald Bethlehem, an economist at JCI, a Johannesburg-based mining and industrial company, describes a sanctions-filled future. He reckons that by the turn of the century, with sanctions holding the economy to zero growth, 55% of the overwhelmingly black work force would be unemployed, which could push the revolutionary temperature beyond the boiling point.

"It would not be necessary for sanctions to cause a collapse of the South African economy in order to ensure a disaster in 12 to 20 years time," he writes. "All that they would need to do would be to bring the growth of the economy to a stop."

Even the sanctions-buster's guru concedes that is a possibility. "In the long term, we can't become totally isolated by sanctions," says Mr. Bell. "If we get to the stage of total deprivation, we'll develop like a three-legged spider."