

In 1980, South Africa's borrowings rose to \$854 million, an increase of nearly 300 per cent over the previous year. Loans in the first half of the year were consistent with the preceding year insofar as they were private bonds issued in Switzerland and West Germany. A major change occurred in the latter part of the year when South Africa re-emerged on the Eurobond market with a public issue of DM120 million (\$67 million). The bond represented the first large public issue raised abroad by the government since 1972. South African officials claimed that it was intended both to "show the flag" again in foreign markets after a long absence, and to take advantage of a favourable market to borrow significant amounts at a low rate in order to repay foreign loans raised previously at a higher rate. The loan received very favourable terms and the seven year maturity was the longest granted a South African issue in several years. The fact that the issue was initially about 25 per cent oversubscribed attests to foreign banks' willingness to renew business relations with the apartheid regime.

The June bond precipitated more South African public bonds and credits throughout the remainder of the year. By year-end 1980, more than 60 per cent of South Africa's loans were accounted for by Euromarket borrowings, largely due to a \$25 million Eurocredit to the government in October. Such loans carry with them a "business as usual" stamp of approval that lets South Africa know that it can count on its Western financial friends despite the verbal condemnations of Western governments. As the London Financial Times noted in a comment on a 1980 loan, South Africa's "real need is for respectability, not funds." New loans to South Africa contribute exactly that, international respectability.

1980 was an important financial year for South Africa, not only because the amount of loan capital increased so much but also because the loans were of a much more public nature with better terms than in the previous four years. Although a number of banks tried to legitimize their lending activity by making loans of a "socially productive" nature, it is clear that this was merely an attempt to keep the finance channels open while hopefully silencing anti-apartheid critics. The willingness of foreign banks to be publicly associated with South Africa again has tremendous economic and political significance for the apartheid regime.

It must be stressed that the amounts of loan capital which are identifiable to the public do not even closely approximate the real value of South Africa's total foreign borrowings, due to the secrecy with which financial transactions are conducted. The Bank for International Settlements reports that, in June 1980, foreign commercial banks had \$10.1 billion in credit commitments to South African borrowers. Even this figure understates the real value of South African borrowings because not all banks report the full value of their external assets and, more importantly, the data only encompasses activities of commercial banks and does not cover investment and merchant bank activities. Calculations based on South African Treasury Department figures put South Africa's total public and private sector long-term foreign debt closer to \$12 billion at year end 1979.⁴

The difference between the estimates of total borrowings and that which is identifiable as individual loans is due primarily to the large amounts of capital which are extended out of the public view. One of the other most important channels is through trade financing. Although bankers tend to downplay the significance of trade financing because of the usually small

amounts and rapid turnover of trade loans, it is this type of credit which facilitated the hundreds of millions of dollars of ESCOM (Electricity Supply Commission) contracts for foreign corporations in 1980. Payments for arms and oil, which together constituted nearly one-third of South Africa's imports in the first seven months of 1980, also fall under the auspices of trade financing. Trade with South Africa often receives the explicit support of foreign governments in the form of trade credits, guarantees, and insurance from state import-export agencies.⁵ One example of the significance of trade credits to South Africa is in the financing of the SASOL coal-to-oil projects. Fully 20 per cent of SASOL II and III financing requirements are met by export credits, many of which are guaranteed by foreign governments.⁶

It is important to point out the very special role which has been taken by banks from Switzerland and West Germany in financing South Africa in the past few years. Since 1976 the vast majority of identifiable loans have been raised as private bonds in the capital markets of these two countries. Swiss bank deposits in South Africa account for approximately half of all Swiss bank deposits in all the countries of Africa south of the Sahara. The particular reliance of South Africa on Swiss bankers is shown by the fact that almost half of South African banks' debt increase towards foreign countries from the end of 1974 to 1976 was covered by Swiss banks. Approximately 60 per cent of South Africa's gold is sold through the gold pool in Zurich and Swiss banks have made particular efforts to assist South Africa through the arrangement of large gold swap deals between Switzerland and South Africa in 1976 and 1977. Part of the reason for South Africa's preference in dealing with Swiss banks is the tradition of extreme secrecy in which Switzerland's financial deals are transacted. The code of banking secrecy is currently coming under strong attack from various Swiss groups.⁷

West German banks are very involved in the financing of trade with South Africa. This is of particular significance because West Germany is the single largest supplier of goods for South Africa and the third largest customer for South African exports. West German banks are more heavily represented in identifiable overseas borrowings than banks from any other nationality, based on both the number of loan transactions and the value of those loans.⁸

The obvious question to ask about this recent increase in South African borrowing activity is why that country is resorting to overseas financing at a time when it is experiencing record balance-of-payment surpluses. One principal reason is that the gold revenues have brought about a period of economic expansion resulting in growing investments and imports -- both of which require vast amounts of capital. Another reason for the demand results from the cost of financing an increasingly militaristic society faced with the prospects of international sanctions. South Africa's growing defence budget, its continued stockpiling of oil, and huge investments in strategic sectors of the economy constitute other major expenditures which will exist as long as the system of white supremacy continues. South Africa also has substantial debt burden incurred from its extensive borrowings in the mid-1970s. There is good reason to believe that South Africa is trying to take full advantage of what will probably be a short-lived economic boom and look for a large number of foreign loans. Sources within South Africa, including Standard and Barclay's Banks, are

predicting that the balance of payments will again go into deficit in 1981 due to the high cost of imports, stagnation in South Africa's export markets, and a drop in the price of gold.

The economic and political support provided by foreign banks to South Africa goes far beyond the provision of loan capital. Many foreign banks have subsidiaries or representative offices in South Africa and maintain correspondent relations with South African banks. In addition to providing valuable technological, financial and business services, these banks make direct contributions to the government of South Africa through the payment of taxes and the investment of assets in government prescribed investments. Such investments include defence bonds, as well as the purchase of instruments of the central government and the state-owned corporations.

Foreign banks in South Africa, particularly those with extensive holdings such as Standard and Barclay's, are also subject to the provisions of the 1980 National Key Points Act. This law allows the Minister of Defence to declare any building or installation a "national key point," thereby requiring the owner to take special security precautions. Since banks have been a target for urban guerrilla raids in the past year, it is likely that foreign banks are included in the very secretive operations, involving the organization of all-white military reserve units and the storing of weapons and communications equipment.⁹

That foreign banks enjoy a particularly close relation with the South African Defence Department is illustrated by the appointment of several members of Barclays and Standard Banks to the Defence Advisory Board. The purpose of the Board is to advise the armed forces on the "best business methods and other matters" including the manufacturing of arms. Banks from a number of countries were deeply involved in financing the manufacture and shipment of Space Research Corporation's artillery system and shells to the South African Defence Forces. It is also alleged that \$2.0 billion destined for the South African Armaments Corporation (ARMSCOR) were held by the Union Bank of Switzerland which was acting on behalf of the South African Reserve Bank.¹⁰

Although the above-mentioned cases are specific examples of direct military collaboration with South Africa, virtually any transfer of capital to South Africa has military implications. Loans to the railways and harbours systems assist in the mobilization of the armed forces. Trade financing encompasses many "gray area" goods such as computers and telecommunications equipment, which are vital to the efficient functioning of a modern army. Energy is a particularly vulnerable and therefore strategic industry in South Africa. Without oil, neither the private sector nor the armed forces would be able to move and thus, loans to the State Oil Fund and the SASOL projects have direct military ramifications. The Electricity Supply Commission, or ESCOM, is one of South Africa's most frequent borrowers overseas. The development of South Africa's nuclear capability is taking place under the aegis of ESCOM.

It must also be remembered that foreign banks which are engaged in South Africa are also involved in Namibia. The vast branch network of foreign banks extends

into Namibia and the financing of the South African military enables the regime to carry out its repressive war in that occupied country.

Many arguments have been used in the debates on loans to South Africa. The banks have used some of the following 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 claiming that loan-granting is nonpolitical. 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 process.
2. "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 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 expect advancement of the black population in South Africa merely by calling for a basic minimum wage and "equal pay for equal work" is a short-sighted policy. For outside groups to concentrate on advocating that Africans should achieve marginal improvements in their pitiful wages is a concept which leaves the overall system of apartheid totally untouched.

Withdrawal of loans by international banks would have a profound effect on South Africa. The loans are now construed as demonstrating confidence in South Africa's economic stability and growth. Further, many white South Africans believe this to be possible precisely because of their sound internal policy - apartheid. Withdrawal would isolate the supreme isolationists. Moreover, hundreds of millions of dollars of loans and billions in investments create a major 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. It becomes a de facto partner in the project. Certainly United States 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 that the overall budget is in a strong position and the economy is viable. They 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 Iron and Steel Corporation (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.

Critics have also raised many arguments. On 19 March 1981, Dr. Leon Sullivan, the author of the Sullivan Principles, and Dr. William Howard, President of the National Council of Churches in the United States of America, issued an important joint statement pledging to initiate a new phase of the campaign to end bank lending to South Africa. It read in part:

"If United States banks perceive that our government has abandoned its past emphasis on human rights and opposition to apartheid, they may be tempted to respond to the South African government's request for loans with a flood of new lending. Last fall Citibank participated in a loan of \$250 million to the South African government. This loan may be the forerunner of a new wave of United States bank loans. Our message to United States banks is unmistakably clear: to United States banks considering a return to a lending as usual relationship with South Africa, we pledge our united efforts to vigorously oppose such loans. Lending to South Africa, to the government or its agencies, and other loans that support apartheid, will be met with a massive withdrawal of deposits, accounts and the divestiture of securities. We will urge the United States public, including our colleagues in the nation's churches, to hold the banks lending to South Africa accountable.

"The Black population of South Africa has shown its determination to be free, to have equal rights in all aspects of their country's life.... The racial unrest in South Africa is like a time bomb that may explode into devastating violence and a great loss of lives. It could precipitate global conflict. By our action today we work to keep this from happening and to contribute toward peaceful change. United States bank loans undoubtedly contribute to the support of the system of apartheid in South Africa.... In essence, United States bank funds indirectly assist in the repression of the Black majority. These loans carry another message with them as they continue to flow to South Africa. They signify an attitude of business as usual by the United States and its banks, that despite apartheid, United States bank lending will continue."

The two leaders concluded:

"Most important, we will renew our efforts to have churches and unions, foundations and universities, city and state pension funds, individual concerned citizens and other institutions a) request a policy from their banks on lending to South Africa, b) withdraw bank accounts, divest of securities and sever other links with banks that continue lending to South Africa in violation of the policy espoused today. We are confident

that this ongoing bank campaign will expand its ranks. We pledge our ongoing efforts until racial justice and Black majority rule are in effect in South Africa."

Campaigners have been greatly inspired in these efforts by the brave public witness of many South African leaders, both black and white. Bishop Desmond Tutu, General Secretary of the South African Council of Churches and one of South Africa's most prominent black leaders, stated in a recent visit to the United States that apartheid is "one of the most vicious systems since Nazism." He urged the international community "for the sake of the children of all South Africans, black and white, for God's sake, for the sake of world peace, that they take action, that they exert pressure on South Africa --political pressure, diplomatic pressure and above all economic pressure."

Because of his statement, Bishop Tutu was angrily attacked by Prime Minister Botha, and his passport was revoked as a reprisal. Apparently South Africa is too threatened by this man of peace, who called for economic pressures against the white supremacist government. Bishop Tutu's call for international economic pressure is increasingly echoed by many other black South Africans who believe that outside pressure is an essential ingredient to push white South Africa to the negotiating tables, and to encourage power sharing between people of all races. For example, the African National Congress for decades has called for economic sanctions against South Africa.

CAMPAIGN TO END BANK LOANS TO SOUTH AFRICA

The following section briefly summarizes some of the major actions which have been taken by groups in different countries as part of the International Bank Campaign against South Africa. Because of the strategic importance and support for white supremacy entailed by loans to South Africa, there have been extensive international campaigns against bank loans by unions, churches, students, anti-apartheid organizations, etc.

In the United Kingdom, bank campaign organizations headed by End Loans to South Africa (ELTSA) have formed a Barclays "Shadow Board" composed of prominent persons from different sectors of society. The Board published a Shadow Report on Barclays in April 1981 and intends to monitor continuing Barclays activities in regard to South Africa. The campaign was boosted by the withdrawal of a major account with an annual turnover of £1.2 billion from Barclays Bank by the London borough of Lambeth.

Citibank has been the principal focus of recent bank campaign activities in the United States. In March 1980 the National Council of Churches, the United Methodist Board of Global Ministries, the Union Theological Seminary and the United States Office of the World Council of Churches announced the withdrawal of accounts worth \$65 million from Citibank. Following Citibank's participation in a \$250 million loan to the South African government in late 1980, Harvard University divested itself of \$52 million in Citibank holdings early in 1981.

In March 1981, as indicated earlier, Dr. Leon Sullivan and Dr. William Howard, President of the National Council of Churches, held a press conference to oppose jointly United States bank lending to South Africa and to announce specific steps that they would be taking to expand the campaign against such loans. A relatively recent development in the United States is the introduction of legislation in state and local governments aimed at limiting or prohibiting the investment of public monies in corporations and banks which operate in South Africa.

The Canadian bank campaign has resulted in the announcement by the Toronto Dominion Bank that no lending to South Africa will take place "under the present conditions."

In the Netherlands, extensive discussions with major lending banks and a nationwide boycott resulted in a promise by both AMRO Bank and the ABN Bank to stop lending to South Africa until legally enforced racism has been abolished.

The French bank campaign on an individual level has received extensive publicity and collective actions are being planned for the future. Special focus will be on the government-controlled banks which are deeply involved in South African lending.

Because of the prominence of Swiss and West German banks in recent South African loan activity, campaigns in these countries are of particular importance. In 1978 a petition was signed by 27,000 Swiss people urging the Federal Council and Parliament to take steps against favoured treatment for South Africa. The United Nations International Seminar on Loans to South Africa, held in Zurich, highlighted the importance of Swiss bank financing of apartheid and raised the issue to a broad public level within Switzerland. Thousands of letters are being sent to institutions and individuals within Switzerland urging them to withdraw their accounts from the major Swiss banks lending to South Africa.

Important research exposing the extensive involvement of national banks in Switzerland and West Germany has been undertaken in recent months. The West German campaign is particularly concerned with government involvement through the activities of 16 publicly controlled West German banks, through official export assistance programme, and a double tax avoidance agreement with South Africa. The campaign has also launched a special protest against the Dresdner Bank because of its acquisition of SWABANK in Namibia, and together with the Evangelische Frauenarbeit will undertake action against the sale of Krugerrands in the spring of 1981.

As part of its longstanding position of opposition to foreign economic support of apartheid, the Executive Committee of the World Council of Churches in Geneva adopted a set of guidelines for determining its continuing relations with banks involved in South Africa. The criteria seek to determine whether a bank maintains facilities in South Africa, whether it is a regular "manager" of loans to South Africa, whether it has continued substantive lending since the 1976 Soweto events, and whether it grants loans of a direct or indirect military nature, or loans which benefit the nuclear industry. The Executive Committee agreed that relationships with banks may be continued if the banks concerned publicly state a policy of no loans to the government of South Africa and its agencies, and openly maintain such a policy.

RECOMMENDATIONS

A list of recommendations related to the campaign against bank loans to South Africa could be extensive, including all of the important components of the ongoing international programmes to stop such loans. Some of the more important recommendations for the consideration of the United Nations, governments, and organizations are indicated below.

UNITED NATIONS

The work of the Special Committee against Apartheid, in holding timely hearings on this question and sponsoring the International Seminar on Loans to South Africa (Zurich, 5-7 April 1981), has been extremely helpful. Not only has expert testimony been compiled but the serious nature of bank involvement in South Africa has been discussed within the United Nations. The Centre against Apartheid has published a series of documents on this question that have been widely used. Occasional hearings and such research should continue.

The United Nations General Assembly has passed several resolutions declaring its opposition to loans to South Africa and urging the United Nations to deny facilities to banks involved in South Africa. Pressure from the United Nations, through its investments and banking relationships, can have a major impact on banks, many of whom are reconsidering their South African policies. These efforts should be encouraged.

The International Monetary Fund also provides credits to the South African regime. The United Nations should consider action to deny such credits.

GOVERNMENT ACTION

Numerous governments actively supporting the struggle for majority rule in South Africa have supported economic sanctions against South Africa. The Nigerian government has taken a leadership role in stating that foreign companies collaborating with South Africa may face penalties as they do business in Nigeria. Specifically, it has acted against Barclay's and British Petroleum.

Any government opposing loans to South Africa can express its opinions directly to banks with which it does business, or allows as commercial "guests" in its country. When economic pressure is applied by governments and their agencies, bank executives will listen attentively.

One of the more interesting developments has been independent actions by government agencies, whether on the national, regional or local level. In Canada, for instance, Canadian University Service Overseas (CUSO), a national government-related agency, withdrew accounts from its bank in protest against the bank's South African policy. In the United Kingdom, as noted earlier, the Borough of Lambeth withdrew a large account from Barclay's, and in the United States of America, the State of Michigan decided not to use banks involved in South Africa. Such effective actions on the local level and by prestigious governmental bodies should be supported and expanded.

NON-GOVERNMENTAL ORGANIZATIONS

Churches, trade unions, universities, foundations, anti-apartheid organizations have all been active internationally in the campaign to stop loans to South Africa. Through dialogue with bank managements, stockholder resolutions and attendance at annual meetings, publicity and public education, congratulating banks with positive policies, withdrawal of individual and institutional accounts, divestment of stock and bonds, the protests against banks have grown. These multiple actions have had a considerable impact in arousing public attention and changing the position of many banks on South Africa. They should be expanded.

N O T E S

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