# Foreign debt: Rolled over, but not playing dead

Anti-apartheid sanctioneers should not view the latest debt rescheduling agreement secured by Pretoria as a 'tragedy', argues economist **ALAN HIRSCH**. The credit-starved South African economy remains vulnerable to pressure - especially as repayment of long-term debts outside the rescheduling net looms.

*Archbishop Trevor Huddleston: Underestimated the power of banks in their handling of Pretoria's foreign debt*

When the South African government announced that it had secured a new debt rescheduling agreement with foreign banks, British Anti-Apartheid Movement president Trevor Huddleston's response was: 'This is tragic news'.

Coming on the eve of the Conference of Commonwealth Heads of Government in Kuala Lumpur in October, the announcement that Pretoria's repayment of short-term credit had been extended to the end of 1993 undoubtedly took some pressure off the South African economy.

But Huddleston's response may have signified too much initial optimism in the potential of rescheduling - and too much pessimism at its failure.

An African National Congress-led international campaign had aimed to block rescheduling until there were clear indications that South Africa was 'well on the way to democracy'.

The Commonwealth itself had been preparing to launch a financial sanctions campaign at Kuala Lumpur.

But Huddleston and many like him, who believed that the banks might be stopped from rescheduling until apartheid was no more, optimistically underestimated the power of the banks and overestimated their sensitivity.

True, banks had driven South Africa to the brink of insolvency. But they had done so for commercial reasons, not political ones. They were unlikely to put their South African assets in danger for what they saw as a political whim.

Yet it was pessimistic to see the new rescheduling agreement as a tragedy. South Africa is still under a tremendous amount of pressure in foreign capital markets and its vulnerability adds force to initiatives for change.

The power of the financial sanctions weapon was testified to by the fact and the timing of the partial easing of security measures by the South African government and by the release of eight very senior political prisoners.

Furthermore, the thrust of many financial sanctioneers was not to block the rescheduling of short-term credit but to cut off new credits - a strategy that may have as much potential now as it had before the Commonwealth Conference.

South Africa remains extremely vulnerable to interference in its supply of capital from abroad, as it has been since its debt crisis came to a head in October 1985.

The financial sanctions strategy used since then by activists at home and abroad in the struggle against apartheid has been more successful than many similar campaigns because of the immediate and dramatic effects of balance of payments problems on the South African economy.

Over the next two or three years, South Africa will experience a particularly severe foreign exchange crunch because of the coming to maturity of several longer term loans outside the rescheduling 'net', which only applies to non-trade credits for periods of one year or less.

Anti-apartheid groups and multilateral organisations such as the Commonwealth aim to exert maximum pressure during this period of vulnerability.

After years of preparation, including the commissioning of the Cole-Ovenden report (*WIP* 61) by the Commonwealth Foreign Ministers Group on Southern Africa, the Commonwealth was set to launch its financial sanctions campaign at Kuala Lumpur.

By the time the Kuala Lumpur Statement on Southern Africa was released, the new debt rescheduling agreement between Pretoria and its foreign creditors had been concluded.

The Commonwealth heads of government, nevertheless, asserted their belief that existing sanctions should remain in place and there should be no relaxation until 'clear and irreversible change' was evident.

With the exception of Britain, they agreed to maintain and tighten existing sanctions and to develop new forms of financial sanctions.

Further, the Commonwealth foreign ministers' committee on Southern Africa was called upon to meet again in April 1990 to exerting further pressure on the South African government.

The third rescheduling agreement looks generous to South Africa, but in the context of a continuing capital drain - in which R25,3-billion has left the country since 1985 - repayment remains a heavy burden for the local economy.

As in the first two rescheduling agreements, only the repayment of short-term credits (excluding trade credits) is delayed. In 1986 that meant $14-billion out of $24-billion; in 1987 about $13-billion out of about $22-billion; and in 1990 it will mean $8-billion out of $20-billion.

A total of $12-million would have been due for rescheduling in 1990 but several banks took the option of converting their short-term loans to long-term credit, thus removing them from the scope of the rescheduling agreement.

While reducing the figure might have made matters easier for South African negotiators, it does mean that a declining proportion of South Africa's debt is open to rescheduling options as they are currently conceived.

The pressure from overdue short-term debts has been relieved, but the pressure of due longer term debts is rising.

The reason that the new agreement stipulates such a small repayment in 1990 - a mere 1,5% of the total - is that in the same year longer-term debts worth at least $2-billion fall due. Of that amount, about $900-million consists of bearer bonds which are impossible to roll over without the provision of new credit.

If all the debt due next year is repaid, South Africa - in the absence of capital inflows - will need a balance of payments surplus of R6,7-billion.

Merely achieving a R4-billion surplus in 1989 has meant real economic pain in the form of very high interest rates. Even more punishing measures will be needed next year.

In the years after 1990 similar burdens will weigh on the South African economy, although not quite as heavily.

Finance Minister Barend du Plessis presented the worst case scenario - one which involved the refusal of new trade credits to South Africa. He said South Africa would have to repay $8-billion over the next four years (about R20,8-billion at present exchange rates), including $1,5-billion inside the net and $6,5-billion outside it.

This is slightly more than the $7-billion required to repay foreign debts in the four years since 1985. If common measures of the severity of debt burdens are used - the ratio between debt, on the one hand, and the gross domestic product or the value of exports, on the other - then South Africa's load is now a little lighter.

If South Africa manages to roll over some of the longer-term debts, or to obtain new trade credits, the burden will be still lighter.

But, in the absence of significant new capital inflows, the only way South Africa will pay the debt is through constraining domestic consumption and growth - which would put the apartheid regime in severe political danger.

The finance ministry is certainly far from complacent. It has opened three new offices abroad. The most recent of these was opened in Hong Kong in August this year.

Since then, the finance department has confimed that it has hired prominent liberal journalist, *Daily News* political correspondent Bruce Cameron, 'to inform people of the situation in South Africa, dealing mainly with the financial media in Europe'.

The search for finance enters new markets in the Far East and the propaganda war enters a new plane.

As long as South Africa faces the worst case scenario sketched by finance minister Du Plessis, economic life in the country will be uncomfortable and the economic sector will be a source of pressure for change.

But the South African government can avoid the worst case scenario by retaining access to foreign trade credits, through gold swops with Swiss banks and through obtaining the odd medium- and long-term loan.

Anti-apartheid activists can curtail the supply of new credit to South Africa.

But the campaign seems more likely to succeed if grassroots organisations abroad focus on obtaining governmental measures at national and local level to stop loans and trade credits rather than trying to directly influence the actions of individual banks.