South Africa wields the debt weapon

by Roger Moore

The Republic of South Africa has become the first debtor-nation to unveil the debt weapon openly, threatening the international banks with a global financial collapse, if Western governments impose economic sanctions against the beleaguered country. Ambassador Dennis Worral from the South African Embassy in London told a House of Commons committee hearing that his country would re-introduce a debt moratorium if far-reaching sanctions were applied against the South African economy, a step he said "would bring down the whole world financial system."

On July 2, South African Finance Minister Barend Du Plessis reiterated, "A country that is prevented from exporting will obviously not be able to earn foreign exchange required for meeting its other international commitments."

South African government sources told *EIR* that South Africa is now in the same boat with Mexico, Peru, and other Third World countries suffering under the policies of the International Monetary Fund. The Pretoria government is well aware that a South African political response to pressure by its creditors would set a precedent for Ibero-American, African, and Asian debtors.

British government sources report that Prime Minister Margaret Thatcher opposes sanctions against South Africa, despite strong pressure for sanctions from Queen Elizabeth II, as well as the British Commonwealth, in part because she is painfully aware of what the consequences would be. The U.S. House of Representatives, which passed a resolution favoring sanctions, apparently has no clue concerning the consequences of its actions.

The push for sanctions, and South Africa's response, have ended an 18-month standoff between South African and its banks. South Africa introduced a debt moratorium in August 1985, after its creditor banks, led by David Rockefeller's Chase Manhattan, called in South Africa's short-term debt. South African Reserve Bank head De Koch then announced a moratorium on $14 billion of the country's $24 billion foreign debt, and asked former Swiss National Bank Chairman Fritz Leutwiler to mediate a "ceasefire" with bankers.

Leutwiler resigned July 3 after South Africa called the bankers' bluff, and the financial press howled with outrage. "South Africa needs the goodwill of the banks more than the banks need South Africa," wrote the July 3 *London Times* editorial, titled: "South Africa versus the Banks." Citing Ambassador Worrall's warning that confrontation with his country "would bring down the whole world financial system," the *Times* argues that the statement "contains a profound miscalculation. A year ago, big debtor countries in Latin America might well have been tempted to follow if South Africa had been the first lemming over the cliff."

In fact, the British newspaper is whistling in the dark: Both the financial desperation of the South American debtors, and their political will to resist, are greater than at any time since the debt crisis exploded in 1982. The bankers themselves are quietly selling off their South African debt paper on a shadowy secondary market, for discounts of up to 30%, according to various reports.

Bankers miscalculated

The bankers miscalculated, believing that South Africa could be manipulated by an international perception game into accepting the dismantling of the only industrial economy on the African continent. South Africa is one of the few countries in the world that has systematically used dirigist economic methods to become an industrial power. Were it not for these methods, it would be in the same situation as most Third World countries, trying to subsist on a stunted agriculture and selected raw-material exports, in a market controlled by speculators and cartels at the expense of the producer nation.

It was, ironically, the Afrikaaner-initiated National Party which, on taking power in 1948, tried to bureaucratize the pre-existing British Empire apartheid tradition, while simultaneously launching a postwar industrial boom which created a demand for increasingly skilled black urban labor, thus shattering the irrational constraints of apartheid on economic development. This industrial policy created the Sowetos, the Alexandras, the segregated urban townships, leading to a 50% urbanization rate, without comparison in sub-Sahara Africa.

One Afrikaaner industrialist involved in siege-economy planning against possible sanctions, said that South African whites have a much different attitude to Africa, than those whose objective was to come, make money, and then leave. "We have a commitment, a will, to develop the country. The world underestimates this commitment."

He added, "The economy and apartheid have an interesting relationship. The economy has always been opposed to apartheid. Apartheid inhibits economic growth." The siege-economy plans will include the elimination of free trade under GATT (General Agreement on Tariffs and Trade), in favor of quantitative import controls. Under the protection of these controls, new branches of industry will be created to replace imported products. Chemicals, consumer durables, and electronics, were cited as probable new sectors.