

TRADE FINANCE
AND
PROJECTIONS OF SOUTH AFRICA'S BALANCE OF PAYMENTS

by
John E. Lind
and
David J. Koistinen

MARCH 1987



CANICCOR RESEARCH

California/Nevada Interfaith Committee on Corporate Responsibility
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RÉSUMÉ

Un moyen principal de pression financière sur l'Afrique du Sud vient d'être perdu à cause du nouvel accord de trois ans entre les banques internationales et l'Afrique du Sud qui a été annoncé le 24 mars 1987. L'accord place \$13 milliards de la dette totale de l'Afrique du Sud sous le moratorium mis en place en septembre 1985. Selon les termes de l'accord, l'Afrique du Sud payera \$1,42 milliards en sept versements sur une période de trois ans, débutant au milieu de 1987.

Les cibles de pression financière deviennent donc maintenant:

1. L'élimination des crédits attribués par les banques et les fournisseurs étrangers pour le commerce avec l'Afrique du Sud.
2. L'élimination des importations du charbon sud-africain par le Japon, l'Allemagne, et d'autres pays de la CEE qui n'imposent pas de sanctions.

CRÉDITS COMMERCIAUX

Chris Stals, directeur général des finances pour l'Afrique du Sud a mis en valeur la question des crédits commerciaux dans une déclaration qui a été rapportée dans le numéro de décembre 1986, de *Euromoney*:

"Nous ne devons pas concevoir notre rapport avec la communauté financière mondiale uniquement en termes de mouvements de capitaux. N'y a-t-il pas également la question du commerce extérieur qui s'effectue dans le cadre du système bancaire? Si la communauté bancaire excluait réellement l'Afrique du Sud du système international de commerce et de paiements, cela constituerait un moyen de sanction beaucoup plus efficace que les sanctions sur le commerce imposées par les gouvernements. Cela nous placerait immédiatement dans un système de troc. Là reside leur force" (emphasis ajoutée).

Les crédits des fournisseurs et des banques étrangères pour le commerce sud-africain ne sont pas compris dans le moratorium sur la dette, et ne nécessitent pas

de permission spéciale lorsqu'ils sont garantis par un gouvernement étranger ou par l'Etat sud-africain. Au milieu de 1986, les crédits commerciaux accordés par les banques et les fournisseurs et garantis par les gouvernements de l'OCDE s'élevaient à environ \$2,9 milliards. Les assureurs et garants principaux, (si l'on se base sur des estimations de leurs garantis) sont le Royaume-Uni (\$700 millions), le Japon (\$900 millions), l'Allemagne (\$320 millions), et la France (\$200 millions). Les Etats-Unis n'assurent pas de crédits pour le commerce avec l'Afrique du Sud. Cependant, certains fournisseurs ont accordé des crédits sans garanties de \$300 millions. Lors de l'imposition du moratorium sur les crédits bancaires, il s'est produit une augmentation des crédits fournisseurs garantis car ceux-ci constituent un autre moyen de financement du commerce.

Si l'on parvenait à éliminer complètement les crédits commerciaux, l'Afrique du Sud se verrait obligé de financer toutes ses importations en espèces, ce qui diverterait une quantité d'espèces égale à la valeur des crédits retirés.

SANCTIONS CHARBONNIÈRES

Les sanctions commerciales imposées par divers pays réduiront les recettes d'exportation de l'Afrique du Sud d'environ \$570 millions selon des projections faites au moment de la publication de cette revue. Ce calcul tient compte de l'effet de la réduction des prix et de l'ouverture de nouveaux marchés. Si l'Allemagne, le Japon, et d'autres pays de la CEE qui n'ont pas encore pris de sanctions contre le charbon sud-africain mettaient en place de telles mesures, le volume d'exportations tomberaient en flèche et l'industrie charbonnière de l'Afrique du Sud serait détruite. De telles sanctions pourraient entraîner une perte additionnelle de \$800 millions pour l'Afrique du Sud.

ANALYSE

Pour mesurer l'effet net d'une réduction des crédits commerciaux et de l'imposition de sanctions au cours de trois prochaines années alors que s'applique le nouvel accord intérimaire, il nous faut faire une

analyse de toutes les entrees et sorties de capitaux de l'Afrique du Sud. On pourra ainsi déterminer le montant des devises étrangères dont l'Afrique du Sud disposera pour payer ses dettes. La somme nette des exportations moins les importations, les frais de transport, les dividendes et l'interêt sur la dette donne le solde sur la balance courante. Ce solde représente tous les fonds qui sont disponibles pour tout mouvement de capitaux hors du pays y compris le remboursement de la dette et l'accroissement des réserves.

En 1986, le solde de la balance courante constituait une entrée nette de capitaux en Afrique du Sud de \$3,1 milliards (les chiffres pour le quatrième trimestre ne sont pas encore disponibles). De ces \$3,1 milliards, \$1,2 milliards ont été payés sous titre de créances émises ou garanties par le gouvernement sud-africain en dehors du moratorium. De plus, le remboursement des crédits commerciaux assurés et toutes les autres sorties de capitaux représentaient entre \$1,0 et \$1,5 milliards. Il restait alors entre \$0,5 et \$1,0 milliards pour le remboursement de la dette. Or, sous le moratorium, seulement \$542 millions de la dette ont été repayés et il existait un restant de capitaux. L'ensemble de ce restant et de tous les capitaux qui sont entrés au pays à cause des engagements antérieurs des banques et fournisseurs étrangers a permis l'Afrique du Sud d'accroître ses réserves.

En 1987, le solde de la balance courante devrait croître à cause de l'augmentation des cours de l'or et du platine depuis mi-1986. Ce solde sera d'environ \$3,71 milliards sans sanctions ni perte de crédits commerciaux. Les paiements pour le remboursement de la dette garantie par le gouvernement sud-africain en dehors du moratorium seront de \$1,31 milliards et les paiements aux banques internationales sous le nouvel accord seront de \$566 millions. Cela laisse donc un excédent de \$1,84 milliards pour les effets des sanctions, la perte de crédits commerciaux, les autres flux liés au commerce, l'accroissement des réserves, et l'augmentation éventuelle des importations. Si l'on présume que les sanctions actuelles s'avèreront complètement efficaces pour toute l'année 1987, cet excédent sera réduit à \$1,27 milliards.

ciable cet excédent de \$1,27 milliards pour l'année 1987 en éliminant une partie des \$2,9 milliards en crédits commerciaux garantis par les pays de l'OCDE. Le surplus serait également réduit si l'Allemagne et le Japon imposaient des sanctions contre le charbon sud-africain, puisque cette mesure réduirait les recettes d'exportation de l'Afrique du Sud de \$800 millions par an.

La somme de tous les excédents, du début de 1987 jusqu'à la fin de l'accord au milieu de 1990, s'élèvera à environ \$5,7 milliards. Ces surplus pourraient presque être contrecarrés par une perte égale de capitaux qui surviendrait si on éliminait tous les crédits commerciaux des pays de l'OCDE et si l'Allemagne et le Japon imposaient des sanctions contre le charbon.

(Ces calculs reposent sur l'hypothèse que le prix du pétrole se maintiendra à \$18 le baril et que le cours de l'or demeurera à environ de \$405/once fine. Le solde annuel de la balance courante de l'Afrique du Sud augmentera de \$1 milliard pour chaque augmentation du prix de l'or de \$50/once et baissera de \$400 millions pour chaque hausse du prix du pétrole de \$5/baril.)

Traduction par David Koistinen, corrigée par Claire Caloren.

SUMMARY

A major source of financial pressure on South Africa has just been lost because of the new three-year agreement between the international banks and South Africa that was announced on 24 March 1987. This agreement now places \$13 billion of South Africa's \$23 billion total debt under the moratorium which was instituted in September 1985. Under the new agreement, \$1.42 billion is to be paid in seven installments over three years beginning in mid-1987.

Thus the focus of financial pressure moves now to:

1. The termination of credits by foreign banks and suppliers for trade with South Africa.
2. The termination of coal imports by Germany, other EEC nations without sanctions, and Japan.

TRADE CREDITS

Chris Stals, Director General of Finance of South Africa, highlighted the issue of trade credits in a statement that was quoted in the December 1986 issue of *Euro-money*:

"We should not think of our relationship with the international banking community only in terms of capital flows. What about the handling of the foreign trade business through the banking system? If the world banking community should effectively exclude South Africa from international trade and payments systems, it would be a much more effective sanctions measure than the trade sanctions applied by governments. It would put us on a barter system overnight. That is the muscle they have on their side" (emphasis added).

Trade credits by foreign banks and suppliers for South African trade are not subject to the debt moratorium nor to special approval when they are guaranteed by either a foreign government or the government of South Africa. By mid-1986 the trade credits, both bank and supplier, which were guaranteed by OECD governments amounted to about \$2.9 billion. The primary insurers and guarantors (with estimates of their guarantees) are the U.K.

March 1987

ZUSAMMENFASSUNG

Übersetzung
Rainer Böhm, EKHN Intern

Eine Hauptquelle für finanziellen Druck auf Südafrika ging verloren, als am 24 März 1987 eine neue dreijährige Vereinbarung zwischen den Gläubigerbanken und Südafrika verlautbart wurde. Sie plazierte 13 Mrd. Dollar von Südafrikas Auslandsverschuldung von insgesamt 23 Mrd. Dollar unter ein Moratorium, das im September 1985 ausgehandelt worden war. Unter der neuen Vereinbarung sollen nun 1,42 Mrd. Dollar in sieben Abschlagszahlungen zwischen dem 1.7.1987 und dem 30.6.1990 zurückgezahlt werden.

Damit liegen die Schwerpunkte des finanziellen Drucks nun auf:

1. der Beendigung von Krediten durch Gläubigerbanken und Industrieunternehmen;
2. der Beendigung von Kohleeinfuhren in die Bundesrepublik und andere europäische Länder ohne Handelssanktionen, sowie nach Japan.

HANDELSKREDITE

Chris Stals, Generaldirektor für die Finanzen Südafrikas, ausserte sich zum Thema der Handelskredite in einem Bericht, den die Zeitschrift *Euromoney* in ihrer Ausgabe vom Dezember 1986 zitiert:

"Wir sollten über unsere Beziehungen mit der internationalen Bankengemeinschaft nicht nur im Sinne des Kapitalflusses denken. Wie steht es um die Abwicklung des Aussenhandels durch das Bankensystem? Wenn die Bankengemeinschaft der Welt Südafrika vom internationalen Handels- und Zahlungsverkehr wirksam ausschliesst, wäre dies eine sehr viel wirkungsvollere Massnahme als die von Regierungen ausgesprochenen Handelssanktionen. Sie würden uns auf die Stufe des Warentauschs zurückwerfen. Diese Macht haben sie auf ihrer Seite."

Handelskredite ausländischer Banken und Industrieunternehmen unterliegen weder dem Schuldenmoratorium noch besonderen Genehmigungen, wenn eine ausländische Regierung oder die Regierung Südafrikas für sie die Bürgschaft übernehmen. Mitte 1986 hatten diese Kredite, für die OECD-Regierungen

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(\$700 million), Japan (\$900 million), Germany (\$320 million), and France (\$200 million). The U.S. does not insure credits for South African trade, but suppliers had extended credits without guarantees of as much as \$300 million. The insured supplier credits increased with the imposition of the moratorium on bank credits as an alternative means of trade financing.

The termination of trade credits would immediately force South Africa to finance its imports on a cash basis, absorbing an amount of cash equal to the value of the credits withdrawn.

COAL SANCTIONS

The trade sanctions imposed by various countries will cut South African export earnings by about \$570 million according to projections as of the time of writing. This calculation takes into account the effect of price cutting and alternative markets. If Germany, Japan, and several other EEC countries which have not yet imposed sanctions on coal were to do so, export volumes would tumble and the South African coal market would be decimated. An additional loss of \$800 million for the coal exports might result.

ANALYSIS

To see the net effect of reducing trade credits and increasing sanctions over the next three years under the new interim agreement, an analysis must be made of all the capital flows into and out of the country to determine how much foreign exchange South Africa will have to pay its bills. The net of exports less imports, shipping charges, dividends and interest on the debt gives the balance on current account. This balance represents those funds that are available for all capital flows out of the country including the debt repayment and accumulation of reserves.

In 1986, the balance on current account was a net inflow to South Africa of \$3.1 billion, although complete figures are not in for the fourth quarter. Of this \$3.1 billion, \$1.2 billion was paid out on South African government or government guaranteed obligations outside the moratorium. Another \$1.0 to \$1.5 billion was paid out on insured trade credits and all other outward flows. This left between one half and one

haften, eine Höhe von 2,9 Mrd. Dollar. Dabei übernehmen Grossbritannien (700 Mill. Dollar), Japan (900 Mill. Dollar), die Bundesrepublik (320 Mill. Dollar) und Frankreich (200 Mill. Dollar) den Hauptteil der Deckungssumme. Die Hermes Kreditversicherungs AG versichert die BRD-Exporte, während die Kreditanstalt für Wiederaufbau Exportfinanzierung und Finanzkredite für Auslandsinvestitionen Deutscher Unternehmen anbietet. Die Vereinigten Staaten sichern keinen Kredit für den Handelsverkehr mit Südafrika mehr ab, aber Industrieunternehmen haben ihrerseits unversicherte Kredite auf 300 Mill. Dollar ausgedehnt. Als eine Alternative zur Handelsfinanzierung wuchsen die versicherten Lieferantenkredite nach dem Moratorium über Bankkredite stark an.

Die Beendigung dieser Handelskredite wurde Südafrika unmittelbar dazu zwingen, seine Importe gegen Kasse zu finanzieren und dafür einen Betrag aufbringen zu müssen, der den zurückgezogenen Krediten entspricht.

KOHLESANKTIONEN

Nach aktuellen Berechnungen werden die Kohlesanktionen, die von verschiedenen Ländern über Südafrika verhängt wurden, die Südafrikanischen Exporteinnahmen um 570 Mill. Dollar verringern. Gegenreaktionen wie Preissenkungen und ein Ausweichen auf alternative Märkte sind in diese Berechnungen eingeschlossen. Durch eine Ausweitung der Sanktionen auf Japan, die Bundesrepublik und andere Länder der Europäischen Gemeinschaft würde Südafrikas Exportvolumen noch weiter reduziert - ein zusätzlicher Verlust von 800 Mill. Dollar für Kohleexporte wäre die Folge.

ANALYSE

Um den Nettoeffekt von reduzierten Handelskrediten und ausgeweiteten Sanktionen während der dreijährigen Laufzeit des neuen Stillhalteabkommens einschätzen zu können, um also bestimmen zu können, wieviele Devisen Südafrika zur Begleichung seiner Schulden zur Verfügung stehen werden, muss eine Analyse des Kapitalflusses nach und aus diesem Land ausgearbeitet werden. Das Saldo von Exporten minus Importen, Transportkosten, Dividenden und Zinsen bestimmt die Leistungsbilanz. Sie fasst also diejenigen Fonds zusammen, aus denen sich der Kapitalfluss aus dem Land speist und die

billion dollars for repayment on the debt. In fact, \$542 million was repaid on the debt under the moratorium, and some funds were left over. This residual together with the capital that flowed into the country because of previous commitments by foreign banks and suppliers allowed South Africa to build up its reserves.

In 1987, the balance on current account should increase because of the higher gold and platinum prices existing since mid-1986. This balance should be about \$3.71 billion without sanctions or loss of trade credits. The debt paid on South African government guaranteed debt outside the net will be \$1.31 billion and the payments to international banks under the interim arrangement will be \$566 million, leaving \$1.84 billion for the effects of sanctions, loss of trade credits, other trade related flows, increased reserves and/or increased imports beyond the minimum that is needed. Assuming that the present sanctions are fully effective for all of 1987, this surplus is reduced to \$1.27 billion.

This \$1.27 billion surplus in 1987 could be significantly reduced by the termination of part of the \$2.9 billion of OECD guaranteed trade credits. The surplus could also be cut if new coal sanctions were imposed by Germany and Japan, since South African exports might be reduced by another \$800 million per year.

The total of all such surpluses from the beginning of 1987 through the middle of 1990, when the new interim arrangement ends, would amount to about \$5.7 billion. These surpluses could just about be counter-balanced by an equal loss of capital if all OECD trade credits were withdrawn and Germany and Japan imposed coal sanctions.

(These projections assume that the price of oil will be maintained at \$18/barrel and that the price of gold will remain at about \$405/troy ounce. The annual balance on current account of South Africa will increase by \$1 billion for each \$50/ounce increase in the price of gold and will decrease by \$400 million for each \$5/barrel increase in the price of oil.)

zur Schuldentilgung und zur Akkumulation von Währungsreserven herangezogen werden können.

1986 hatte Südafrika eine positive Leistungsbilanz von 3,1 Mrd. Dollar (Angaben für das vierte Quartal waren unvollständig). Davon wurden 1,2 Mrd. Dollar dafür benötigt, von der Regierung ausserhalb des Moratoriums aufgenommene oder abgesicherte Obligationen auszugleichen. Diese Schulden liegen 'ausserhalb des Netzes' (siehe Tabelle VI, S.19: "outside the net"). Weitere 1-1,5 Mrd. Dollar wurden zur Rückzahlung von versicherten Handelskrediten und für andere Formen des Kapitalausflusses verwendet (Vgl. Tabelle VII, S. 20: "Other Capital Flows"). Damit bleiben also zwischen einer halben und einer Mrd. Dollar zur Schuldentrückzahlung übrig. Tatsächlich wurden aber unter dem Moratorium eine Schuldentrückzahlung von nur 542 Mill. Dollar geleistet. Die restlichen Fonds wurden, zusammen mit Kapitalzufluss, der sich aus älteren Zahlungsverpflichtungen von Banken und Industrieunternehmen speist, dazu benutzt, Währungsreserven anzulegen.

Die seit Mitte 1986 gestiegenen Gold- und Platinpreise lassen für 1987 einen noch höheren Leistungsbilanz-Überschuss erwarten. Er wird etwa bei 3,71 Mrd. Dollar liegen. Mit Schuldenzahlungen für von der Regierung verbürgte Schulden in Höhe von 1,31 Mrd. Dollar und Zahlungen an internationale Banken unter dem gegenwärtigen Stillhalteabkommen in Höhe von 566 Mill. Dollar verbleiben der Regierung Südafrikas 1,84 Mrd. Dollar als Polster, um die Auswirkungen von Sanktionen, Verlusten von Handelskrediten, anderen handelsbezogenen Zahlungen, einen gestiegenen Bedarf an Währungsreserven und/oder über den jetzigen Mindestbedarf steigende Importe auszugleichen. Werden die gegenwärtigen Sanktionen während des gesamten Jahres 1987 beibehalten, dann verringert sich der Leistungsbilanz-Überschuss auf 1,27 Mrd. Dollar.

Dieser Überschuss liesse sich zum Einen durch die Stornierung eines Teiles der von der OECD garantierten Handelskredite in Höhe von 2,9 Mrd. Dollar verringern. Zum anderen könnte er durch Kohlesanktionen der Bundesrepublik und Japans, die Südafrikas Exportvolumen um 800 Mill. Dollar sinken (Fortsetzung folgt Seite 21.)

FINANCING SOUTH AFRICA AFTER THE CRISIS

South Africa is in reality a developing country, dependent upon a net inflow of foreign capital for adequate growth of the economy. At the present time, foreign long-term lending has almost completely stopped because of the moratorium, which South Africa declared unilaterally in September 1985 on \$10 billion of its \$24 billion international debt. Thus South Africa must depend almost totally upon its exports for its foreign exchange and upon the trade financing of imports by banks and foreign suppliers who desire to maintain their South African markets.

This report examines first the export credits from foreign countries for their exports to South Africa. These credits amount to over \$3 billion, with at least \$300 million of commitments. Then projections of the balance of payments of South Africa will be made to obtain the balance on current account. This balance repre-

sents the net inflow of capital from foreign trade after service payments have been made. The balance on current account is currently running about \$3.1 billion per year for 1986 in favor of South Africa. It represents the foreign exchange that South Africa has available for repayment of the principal on its debt and for the expansion of its economy. Thus, at present the export credits of foreign nations are about equal to the annual net balance on current account of South Africa. In other words, foreign suppliers and banks are providing as much credit as the net foreign exchange from foreign trade. The caveat to this statement is that some of the long term trade finance was arranged before the moratorium. However, the South African Reserve Bank indicated a significant inflow of capital to the parastatal corporations during the third quarter of 1986, thus indicating some renewed, or at least previously committed, new long-term lending.

PART I TRADE FINANCE

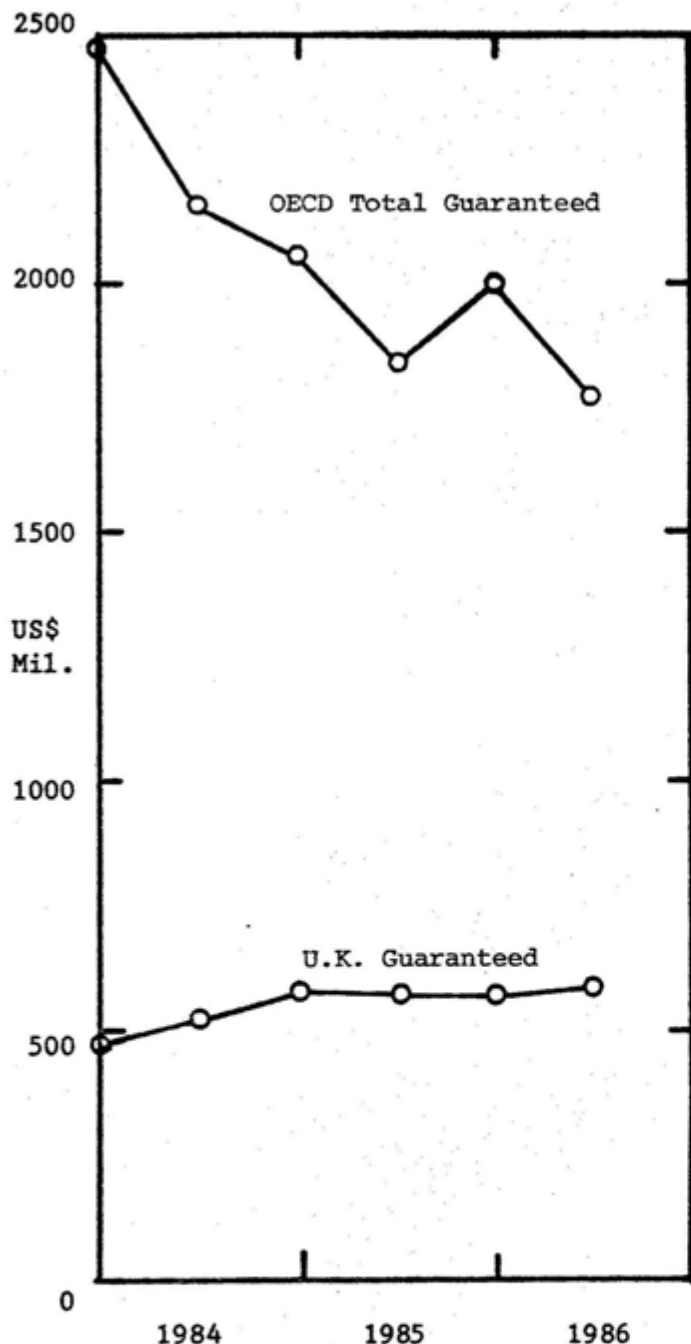
A starting point for the estimation of the trade finance that has been provided South Africa from other countries can be found in the data provided by the Organization for Economic Co-operation and Development (OECD). This supranational organization includes all the major industrialized countries and thus includes all the countries who provide the major trade finance. The OECD publishes the total trade credits which are insured or guaranteed by any of the governments of the member nations and provides the information separately for bank credits and suppliers credits.

Figure 1 shows the total amount of bank claims on South Africa that are insured or guaranteed by the governments of the members of OECD. These claims have dropped from \$2.5 billion at the end of 1983 to about \$1.8 billion by mid-1986. The small peak between mid-1985 and mid-1986 shows what is probably a rush for guarantees when the debt moratorium was announced in September 1985. The moratorium is on payments of principal which were not insured or guaranteed by the South African or foreign governments. Guarantees for a specific country are only known for the United King-

dom and they are shown to be a little over a half billion dollars and rather constant throughout the two and a half year period. By mid-1986 the U.K. guarantees represented nearly one-third of all the OECD guarantees.

The OECD insured trade-related claims on South Africa by non-banks (suppliers) are plotted in Figure 2. At the end of 1983, they are about half the amount of the guaranteed bank claims, and like the bank claims, they drop as the economy of South Africa worsens during 1984 and 1985. However, after the moratorium on the bank debt is announced, these credits rise from \$0.95 billion to a little over \$1.1 billion as suppliers seek to ship goods under guarantees to assure that the payments will not be delayed under the moratorium. As in the case of guaranteed bank claims, insured suppliers credits are not known for the individual countries. However, total suppliers credits are known for the Federal Republic of Germany and the United States and they are plotted in Figure 2. None of the U.S. credits should be insured by the U.S. because the U.S. Export-Import Bank is forbidden by Congress to provide any ser-

Figure 1. Bank Claims on South Africa which are Guaranteed by the Governments of the OECD Member Nations.



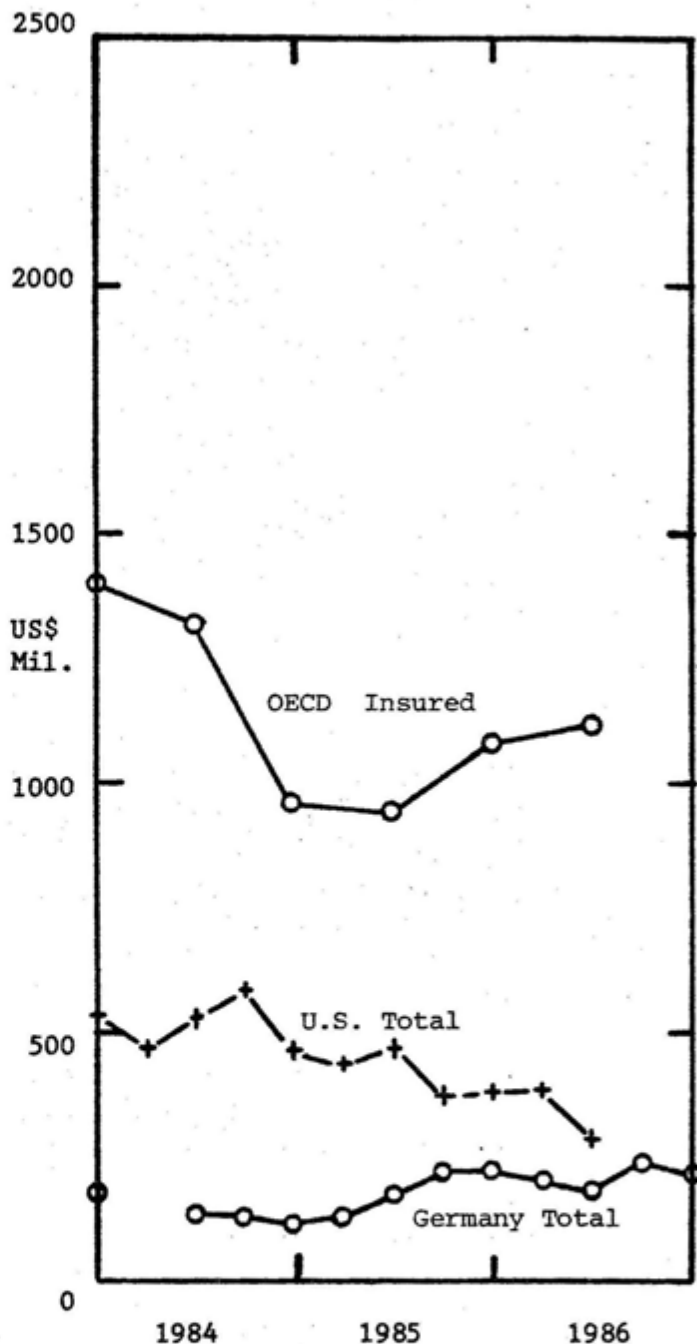
Sources:

OECD: **Statistics on External Indebtedness: Bank and Trade-Related Non-Bank External Claims on Individual Borrowing countries and Territories**, semi-annual, BIS (Bank for International Settlements)/OECD, Paris and Basle.

U.K.: Bank of England, **Quarterly Bulletin**, Table 15, UK-registered monetary sector institutions and their branches and subsidiaries worldwide.

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Figure 2. Non-Bank Claims (Suppliers Credits) on South Africa.



OECD source same as Fig. 1.

U.S.: **Federal Reserve Bulletin**, Table 3.23, Claims on Unaffiliated Foreigners Reported by Nonbanking Business Enterprises in the U.S. South African total is assumed to be all of Africa less the oil exporting countries.

Germany: **Statistische Beihefte zu den Monatsberichten der Deutschen Bundesbank**, Series 3, **Zahlungsbilanzstatistik**: Table 11c, Forderungen inlaendischer Unternehmen gegenueber einzelnen Laendern aus Finanzkrediten (ohne Kreditinstitute).

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vices for export to South Africa.

The German suppliers credits show a significant rise in the second half of 1985, indicating a shift from bank credits around the time the moratorium was called. The fraction of these suppliers credits that are insured is unknown.

Finally U.S. suppliers credits decline from a maximum of \$600 million in 1984 to \$300 million by mid-1986. These estimates assume that essentially all the credits to African countries which do not export oil, are to South Africa. The decline of these U.S. suppliers credits contrasts to the German increase and is probably caused by the movement for disinvestment in the U.S. The implementation of various divestment and selective buying laws by local governments finally led to the numerous firms disinvesting from South Africa in the Fall of 1986.

Since these U.S. suppliers credits are uninsured by the U.S., they must be added to the OECD total, raising it to \$1.9 billion at the end of 1983. This total then drops to about \$1.4 billion by mid-1986. The resulting total of suppliers credits and guaranteed bank claims is over \$3.2 billion in mid-1986.

Since data are not available to break-down these credit totals further by countries, some method of estimation must be devised. The amount of these credits guaranteed or insured by a given country will depend upon the amount of its exports to South Africa and its general policies on guarantees and insurance. Such estimates are made in Table I where the exports to South Africa from the major OECD nations are given for 1984, the last "normal" year before the moratorium. For several countries, information is available on the average percentage of their worldwide exports that are covered by guarantees and insurance. These percentages can be applied to the exports of the countries to South Africa to yield an estimate of the dollar amount of those exports that is covered. These amounts are given in the far right hand column of Table I.

The estimated coverage is \$1.7 billion by the the five largest exporters to South Africa with \$8 billion of the total \$11 billion OECD country exports. If the re-

Table I: OECD Exports to South Africa 1984.

Country	Exports in millions US\$			
	Total (1)	% OECD (2)	Average Worldwide Coverage (3)	Estimated Coverage (4)
U.S.	\$2278	21%		0
Japan	1841	17%	39%	\$718
France	502	5%	33%	166
Germany	2343	22%	11%	258
Italy	519	5%	?	?
U.K.	1571	15%	35%	550
Other(3)	2251		?	?
OECD	10802			1692
Other(4)	6546			
Total(5)	17348			

Notes to Table I:

- (1) **Foreign Trade by Commodities**, Vol. I, Exports, Series C, OECD, Paris 1986.
- (2) A.M. George & I.H. Giddy, **International Finance Handbook**, 7.2.18, John Wiley and Sons, New York 1983.
- (3) The list of the other OECD nations, each of which exports less than 5% of the OECD total is as follows: Canada, Australia, New Zealand, Belgium-Luxembourg, Denmark, Greece, Ireland, Austria, Finland, Iceland, Norway, Portugal, Spain, Sweden, Switzerland, Turkey, and Yugoslavia.
- (4) Exports of other non-OECD nations plus large unassigned memorandum items which include oil and arms imports in violation of the UN embargoes.
- (5) **International Financial Statistics**, IMF.

Official insurers and guarantors include:

Japan: Ministry of International Trade and Industry (MITI): Special limit for South Africa is greater than Y6 billion per transaction. Export-Import Bank.

France: Compagnie Francaise d'Assurance pour le Commerce Extérieur (COFACE)

Germany: Hermes Kreditversicherungs A.G. Special limit for South Africa is DM50 million per transaction.

U.K.: Export Credit Guarantee Department (ECGD).

Transaction limits given by J.A. Spindler, **The Politics of International Credit**, The Brookings Institution, Washington DC, 1984.

maining OECD countries' insurance and guarantees were comparable to those of these five countries, the total coverage for all OECD nations would be nearly \$2.3 billion. This is about equal to the guaranteed bank credits but not the sum of the bank credits and supplier credits that are covered. Therefore, coverage of credits for exports to South Africa must have been about 50% higher than the OECD country worldwide average coverages in 1984.

In 1986, the coverage by insurance and guarantees by OECD nations for South African trade given in figures 1 and 2 is about 25% higher than the numbers given for 1984 in Table I. Estimates of the coverage of individual countries for 1986 can thus be made by increasing these numbers in the last column of Table I by 25%, yielding: U.S. - none, Japan - \$900 million, France - \$200 million, Germany - \$320 million, U.K. - \$700 million.

As a cross check of these estimates, the amount of export suppliers credits provided and outstanding by the Export-Import Bank of Japan can be estimated from their annual report. Their export suppliers credits outstanding as of 31 March 1986 to Africa was \$1469 million. Since about 30% of Japan's exports to Africa are to South Africa, this would suggest that \$440 million of these credits were extended to South Africa. These credits, alone without the additional insured credits through MITI, represent about one half of the total estimate of \$900 million for Japan given above. Thus this estimate of \$900 million is quite reasonable.

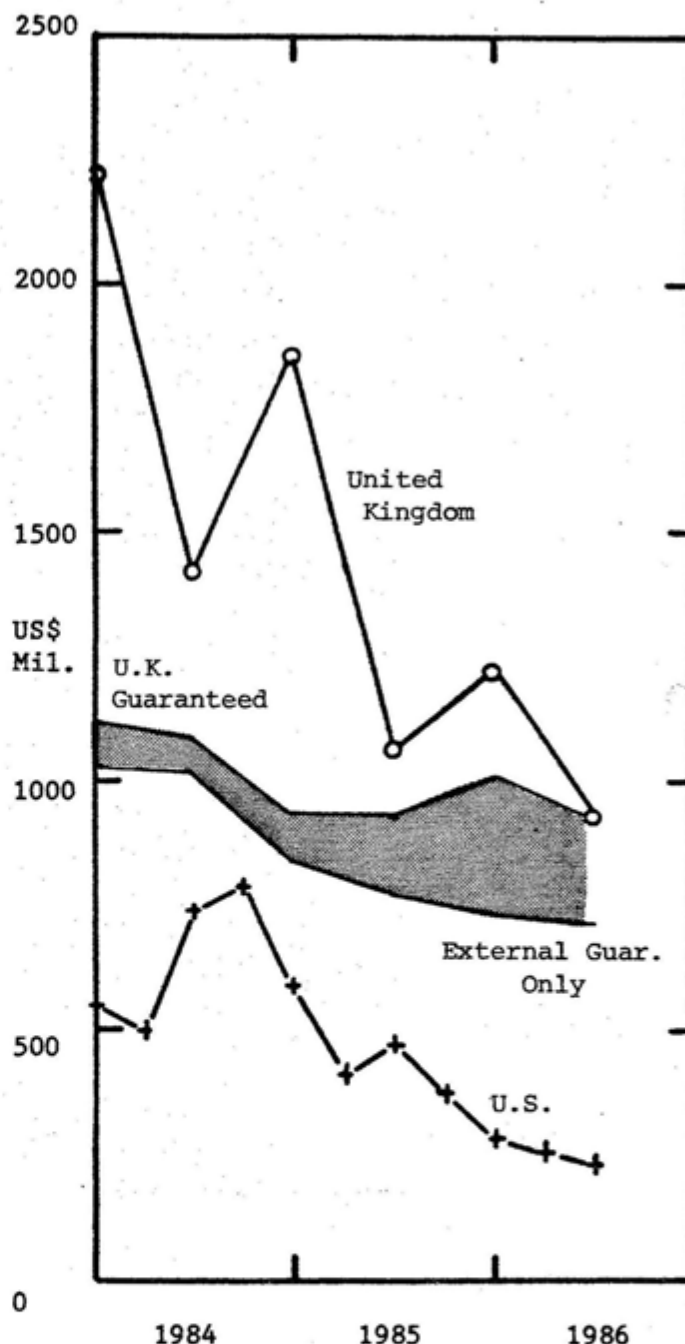
BANK LENDING COMMITMENTS

Bank lending commitments are a mix of trade related commitments such as commercial letters of credit, standby letters of credit, revolving credit facilities and undrawn portions of all other types of loans.

Both the U.S. and the U.K. publish for their banks the commitments which have not yet been drawn upon by South Africa. Table III of the U.S. Country Exposure Lending Survey shows \$44 million of U.S. bank commercial letters of credit within the \$228 million of contingent claims as of September 1986. These letters of credit of

March 1987

Figure 3. Bank Lending Commitments to South African Borrowers.



Sources:

U.K.: Bank of England, *Quarterly Bulletin*, Table 15, UK-registered monetary sector institutions unused external commitments with inward and outward risk transfers, i.e. UK and foreign guaranteed.

U.S.: *Country Exposure Lending Survey*, Statistical Release E.16(126) FFIEC, quarterly, Table III, Cross Border and Non-local Currency Contingent Claims.

course are related directly to trade. There is an equal amount of standby letters of credit which represent an insurance item, while the remaining \$149 million of other commitments are revolving credit facilities and undistributed portions of loans. This latter \$149 million is thus a mix of trade related and some long-term lending commitments. The total of all contingent claims by U.S. banks, shown in Figure 3, has dropped from a high of nearly \$800 million in 1984 to \$228 million in September 1986. There was a rapid decrease in early 1985 as the economy worsened and the unrest continued in the South African townships with a small peak in letters of credit at the time the debt moratorium was announced in September 1985.

The unused commitments of UK-registered monetary institutions, which are shown in Figure 3, are several times larger than those of the U.S. banks. The U.K. commitments were at \$2.2 billion at the end of 1983 and zig-zaged cyclically downward to \$900 million by mid-1986. The guaranteed portion of these commitments has slowly dropped from about \$1100 million to \$950 million by mid-1986. The bulk of these guarantees are "outward risk transfers" which are presumably South African guarantees, and these latter have decreased slowly from about \$1000 million at the end of 1983 to about \$750 million by mid-1986. The remaining guarantees, represented by the shaded area in Figure 3, are "inward risk transfers", the bulk of which are presumably with the Export Credit Guarantee Department (ECGD) of the . government. These U.K. guarantees have risen since 1985, showing a jump of almost \$100 million at the time of the announcement of the debt moratorium by South Africa that year. This \$200 to \$300 million of UK-insured credits probably represent the more usual short-term trade credits, while the South African insured portion represents a mix of long-term UK capital exports and general lending to the public sector of South Africa.

As shown in Figure 3, the total amount of unused UK bank commitments has dropped and by mid-1986 equaled the total amount of guarantees. None of these commitments is inside the moratorium "net" and all would be paid on time by South Africa, once they are drawn upon.

Therefore, in addition to the known trade credits of about \$3.2 billion, which were drawn upon by mid-1986, there are at least another \$300 million more of U.S. commitments and U.K. guaranteed commitments which might be considered trade related. The resulting total is about \$3.5 billion. The remaining South African guaranteed commitments of the UK-registered institutions will be discussed under the capital accounts section of the Balance of Payments.

PART II BALANCE ON CURRENT ACCOUNT

The balance on the current account represents the net earnings of a country from foreign trade, including shipping costs, plus unrequited transfers and net earnings from investment income. The latter includes the interest on any foreign debt. Central to this balance is the trade balance, the net of exports and imports.

EXPORTS

Exports will first be projected assuming that no sanctions have been enacted. Although some sanctions have been imposed, there is a considerable time lag before they become effective. Thus, this initial calculation without sanctions will be valid

Table II. South African Exports for 1984.

Commodity	US\$ Million	Per Cent
Gold	7997	46.5%
Food, Beverages, & Tobacco	798	4.6
Fruit	406	2.4%
Inedible Raw Mat'l.	2835	16.5
Coal	1191	6.9
Metal Ores	639	3.7
Animal & Veg. Oils & Fats	25	0.1
Chemicals	513	3.0
Manufactured Goods	2770	16.1
Textiles	56	0.3
Diamonds, not Indust.	915	5.3
Metal Products	1566	9.1
Machinery & Transport	331	1.9
Misc. Manufactures	112	0.7
Unclassified	1801	10.5
Total	17182	100.0

Source: *Bulletin of Statistics*, Quarterly, Central Statistical Services, Republic of South Africa; Conversion to dollars - IFS of IMF.

as late as mid-1987. The effect of sanctions will then be considered in the following section.

Three of the major South African exports are gold, diamonds and platinum. These products, as well as certain other strategic metals such as vanadium are not easily subject to sanctions. Gold is by far the most important South African export, representing nearly half of total export earnings. Table II gives an overview of all the exports of South Africa.

In order to project the 1987 exports without sanctions, sales of gold, diamonds and platinum will be individually projected, and the 1986 export levels for the remaining products will be carried forward.

GOLD:

South African mines sell all of their gold to the country's Reserve Bank, which markets the metal in Europe. Two-thirds of South African production is sold through the Zurich market, and the remainder is marketed through London.

A pool of three banks-- the Swiss Bank Corp., Union Bank of Switzerland, and the Swiss Credit Bank-- controls the Zurich market. The three jointly set prices, adjusting them constantly to meet changing market conditions. Each bank independently buys and sells gold at the set price; within the pool, the three square accounts with each other periodically.

In London, five firms led by the Rothschild bank control the market. The others are Mocatta & Goldsmid, Mase Westpac, Samuel Montagu, and Sharps, Pixey. Twice a day, in a closed-door meeting, the five "fix" the gold price at the point where the quantity of gold offered for sale by their clients equals the amount demanded. Though prices change constantly, the "fix" prices offer a benchmark of market conditions.

Gold exports are likely to remain relatively constant in the near future.

SOUTH AFRICA'S BALANCE OF PAYMENTS

Past and Projected without Sanctions in Millions of U.S. Dollars

	1984				1985			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
A. CURRENT ACCOUNT								
EXPORTS: Gold	2234	2001	1877	1886	1752	1606	1823	1764
Diamonds	245	275	230	198	225	300	210	270
Platinum *	276	276	195	185	155	158	172	192
Other *	2076	1864	1579	1666	1758	2362	1699	1804
Total	4586	4416	3881	3935	3890	4426	3904	4030
IMPORTS: Oil (22 mil. b/Q) *	-638	-638	-638	-638	-631	-616	-616	-616
Other	-3427	-3307	-2941	-2484	-2011	-2161	-1969	-1782
Total	-4065	-3945	-3579	-3122	-2642	-2777	-2585	-2398
TRADE BALANCE	521	472	302	813	1248	1649	1318	1632
OTHER GOODS, SERVICES & INCOME								
Credit	771	847	745	673	673	675	609	649
Debit	-1594	-1683	-1602	-1418	-1408	-1566	-1515	-1409
Net	-823	-836	-857	-745	-735	-891	-906	-760
UNREQUITED TRANSFERS, Net	32	34	19	28	12	23	21	12
BALANCE ON CURRENT ACCOUNT	-270	-320	-536	96	525	780	434	885
B. LONG-TERM CAPITAL MOVEMENTS								
Direct Investment	68	67	57	45	2	14	-2	6
Portfolio Investment, Total	173	277	261	272	96	267	72	-16
Other Capital, Total	131	295	239	26	68	-292	-297	-84
Total	372	639	557	343	166	-11	-227	-94
BASIC BALANCE, Groups A + B	102	319	21	439	691	769	207	791
C. SHORT-TERM CAPITAL, Net	-11	353	135	-231	-836	-278	-395	-62
D. ERRORS AND OMISSIONS	-448	-417	-403	-439	-266	-106	-87	-935
TOTAL, Groups A through D	-357	255	-247	-231	-411	385	-275	-206
E. COUNTERPART ITEMS	-30	51	24	24	5	-12	-80	8
F. EXCEPTIONAL FINANCING	-36	31	248	-187	277	-267	80	-103
G. LIABILITIES CONSTITUTING FOREIGN AUTHORITIES' RESERVES		-4	4		-2	-8	14	-11
TOTAL, Groups A through G	-423	333	29	-394	-131	98	-261	-312
H. TOTAL CHANGE IN RESERVES	423	-333	-29	394	131	-98	261	312
MEMO ITEMS:								
Oil, av. US\$/barrel	29.00	29.00	29.00	29.00	28.67	28.00	28.00	28.00
Platinum, av. \$/Troy oz	475	475	336	319	268	272	296	330
Exchange Rate, av. US\$/10,000 Rand	8109	7840	6362	5504	4917	5088	4467	3784

SOURCES: International Financial Statistics, IMF; # Quarterly Bulletin, South African Reserve Bank; * estimates; @ Financial Times, 28 January 1987, 26 March 1987.

ZAHLUNGSBILANZ DER SÜDAFRIKA
Millionen US\$

1986				1987			
Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
1731	1762	1851	2002	2000*			
333	272	327*	343*	343*			
196	245	340	350	345			
<u>1969</u>	<u>2035</u>	<u>1971</u>	<u>2337</u>	<u>2075</u>			
4229	4314	4489	5032	4763*			
-399	-242	-242	-308	-396			
<u>-2285</u>	<u>-2442</u>	<u>-2896</u>	<u>-2382</u>	<u>-2500*</u>			
-2684	-2684	-3138	-2690@	-2896*			
1545	1630	1351	2342	1867*			
668	665	664#	670*	670*			
<u>-1599</u>	<u>-1701</u>	<u>-1589#</u>	<u>-1650*</u>	<u>-1650*</u>			
-931	-1036	-925	-980	-980*			
37	46	31	40*	40*			
652	641	457#	1402@	927*			
3	-12						
-94	-22						
-194	-178						
<u>-285</u>	<u>-212</u>	-133#					
367	429	324#					
-733	-516	} 151#					
158	30						
-208	-57	475					
-107	-59						
-207	-245						
-2							
-524	-361						
524	361						
18.14	11.00	11.06	13.77	18.00			
385	423	539	523	515			
4663	4469	4033	4468				

LEISTUNGSBILANZ		A.
AUSSENHANDEL		
Gold	AUSFUHR	
Diamanten		
Platin		
sonstiger Handel		
Gesamt		
Öl	EINFUHR	
sonstiger Handel		
Gesamt		

HANDELSBILANZ

ERGÄNZUNGEN ZUM WARENVERKEHR U.	
Einnahmen	TRANSIT HANDEL
Ausgaben	
Saldo	

ÜBERTRAGUNGEN, Saldo

LEISTUNGSBILANZ

LANGFRISTIGER KAPITALVERKEHR		B.
Direktinvestitionen		
Effektportefeuillen		
sonstiges Kapital		
Saldo		

GESAMT: A+B

KURZFRISTIGER KAPITALVERKEHR		C.
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AUSLASSUNGEN D.

GESAMT: A - D

According to Stefan Wagstyl (*Financial Times*, 30 July 1986), world gold production has been increasing with new mines being developed. In 1985, mine output in the West rose to 1,213 tons; production is expected to increase to 1,400 tons in 1989. Much is used in jewelry rather than directly as an investment, and thus the price is becoming more dependent upon the demand for jewelry.

Beginning in August, 1986, there was a surge in the price of gold that peaked during October at an average price for the month of \$427 per troy ounce. The price has since stabilized somewhat above the \$400 level. The average of end of the week quotations of gold on the New York commodity exchange for the first three months of 1987 is about \$405; this figure is projected across the remaining quarters of the year for the purpose of projecting the balance of payments.

The gold price should remain stable at a constant value relative to the basket of the major currencies. The current market price for gold is well above the cost of production, which is reportedly less than \$200 per ounce for one of the new Nevada mines using the heap leach method (*Wall Street Journal*, 29 August 1986).

DIAMONDS:

South Africa's De Beers Consolidated Mines monopolizes the world diamond trade. Through its subsidiary, the Central Selling Organization, De Beers markets 80% of the world's diamond production. The CSO buys all of the diamonds from the world's major mines of which the South African production makes up 20%. The CSO then slowly releases them onto the market in a manner that assures price stability.

As prices stagnated between 1980 and 1984, De Beers was forced to hold South African diamonds off the market while selling the diamonds it purchased from other producers. As a result, De Beers had by 1984 accumulated a stockpile of stones worth \$1.95 billion (*Financial Times*, 4 July 1986) which it held in Switzerland. Credit to finance this stockpile came from Dutch and Belgian

banks, among other sources.

De Beers's sales surged in 1986, however, increasing 42% over the previous year to \$2.56 billion. Moreover, the sale of South African diamonds increased more than total diamond sales as De Beers ran down its huge inventory of mainly South African stones. The following table gives diamond sales for the past three years.

DIAMOND SALES OF THE C.S.O.
(in millions of currency units)

Year	Q1 + Q2	Q3 + Q4
1984	R 1180 = \$ 941	R 1126 = \$ 668
1985	R 1676 = \$ 838	R 2351 = \$ 970
1986	R 2710 = \$1238	R 3200 = \$1319

Source: Kenneth Martson, *Financial Times*, 4 July 1986; De Beer's annual financial statement, *Financial Times*, 11 March 1987; \$/R from International Financial Statistics (IFS) of the IMF.

Since the diamond export figures for South Africa for the third and fourth quarters of 1986 have not yet been published by the IMF, these figures were estimated by calculating the ratio of total CSO sales for the first and second quarters to total South African diamond exports during the same period, and applying it to the figure for total CSO sales in the third and fourth quarters.

The resulting estimate of South African diamond exports in the final two quarters of \$670 million was then divided so that the fourth quarter figure is 4.7% higher than the third quarter number because the CSO increased the price of rough cut stones by 7% at the beginning of November ($7\% \times 2/3 \text{ months} = 4.7\%$). The fourth quarter figure is used as an estimate for exports in the first quarter of 1987 in Table 2, and is projected across the remaining quarters of 1987 in the balance of payments calculations.

PLATINUM:

The price of platinum climbed precipitously in August and September, 1986, as the threat loomed of a cut-off of

supply by South Africa in response to Western sanctions. Platinum rose to a high of over \$600 per troy ounce in September before declining to an average of \$523 in the fourth quarter of 1986.

Neither the IMF nor the Reserve Bank of South Africa includes platinum exports in their published figures, so exports must be estimated by multiplying sales volume by the average commodity exchange price in New York. There is a certain degree of error here since a substantial amount of South Africa's platinum is sold under long-term contract at prices that were set before the open market price skyrocketed last year. Nevertheless, this method gives an indication of South African earnings from platinum exports.

According to the *Financial Times* (16 June, 1986), Johnson Matthey, the precious metals group, put South African production for 1985 at 2.32 million fine ounces, which gives a quarterly average of .58 million ounces. This quarterly figure will be used as a base for the calculations that follow.

A major strike in the first months of 1986 significantly reduced output at the Impala mine, the second largest platinum producer in South Africa. The *Financial Times* (24 July 1986—before the boom in platinum prices), published the results of a report by Credit Suisse which said that production in 1986 would fall about 3% from the level of 1985, but would return to the 1985 level in 1987. Presumably, this projected production shortfall was due to the Impala strike. Assuming this to be the case, the entire 3% predicted drop in 1986 production—.07 million ounces—is subtracted from the quarterly average of .58 million ounces, giving an estimated first quarter output of .51 million ounces. Production is assumed to have returned to the 1985 average level of .58 million ounces in the second quarter, the strike having ended.

Producers worldwide increased output as prices jumped in the third quarter. The *Journal of Commerce* (13 December 1986) reported that Johnson Matthey

estimated total platinum supply to the West in 1986 at 2.81 million ounces, up from 2.74 million ounces in 1985. Since South Africa provides 85% of the platinum purchased in the West, it is assumed that South Africa provided 85% of the increase in the West's 1986 supply; thus, South Africa's 1986 platinum production is estimated to have increased by .06 million ounces to 2.38 million ounces $((2.81-2.74) \times .85 = .06)$.

Subtracting the estimates for first and second quarter production from this total of 2.38 million ounces leaves output of 1.29 million ounces for the third and fourth quarters. Since South African mines boosted production to meet dramatically higher prices, it is assumed that output rose at a constant rate during the final two quarters of 1986 from the base level of .58 million tons per quarter. Thus, production for the third and fourth quarter is estimated at .63 and .67 million ounces respectively.

The figure of .67 million ounces is used as an estimate of output for each quarter in 1987. The average platinum price through the first three months of 1987, based on end of the week quotations on the New York commodity exchange, is about \$515. This price is projected across the remaining quarters of the year for the balance of payments calculation.

OTHER EXPORTS:

In the Balance of Payments Table, the difference between the sum of the gold, diamonds, and platinum exports and the total exports reported by the Reserve Bank of South Africa is denoted as "other". It represents about 45% of the total South African exports and includes that portion of the exports that are subject to sanctions as well as strategic metal ores. For 1987, other exports are projected at the same level as 1986 and then the effects of sanctions will be added on separately.

THE EFFECT OF SANCTIONS

Most industrial countries have adopted some form of sanctions against South African imports. The U.S. banned coal, iron and steel, uranium, textiles, and agricultural products. The E.E.C. outlawed iron and steel; France, acting individually, is boycotting coal, while Denmark has banned practically all trade with South Africa, including its formerly large coal imports. Norway has similarly cut all commercial ties, while Sweden has outlawed import of fruits and vegetables and may soon move to such a total ban.

The Commonwealth countries have adopted sanctions against iron and steel, coal, and agricultural goods which individual Commonwealth countries can implement as they choose. Notably, Great Britain has not banned its significant agricultural imports from South Africa. Japan is boycotting iron and steel imports. These sanctions will affect trade that was worth \$1.48 billion in 1985, as shown in Table III.

This does not mean that South African exports will fall by this amount. South Africa will attempt to sell to boycotting countries by transshipping goods through points like Namibia, Israel, Taiwan, and the Isle of Man. South African producers will also cut prices and search for new markets, particularly in East Asian countries such as Taiwan and Hong Kong.

The product by product analysis of the effects sanctions will have on South African exports in 1987 is estimated as follows.

Coal:

According to the *Journal of Commerce* (17 November 1986), a study found that in the currently glutted world coal market, sanctions would cause a 50% drop in revenue from South African coal sales, representing a 30% drop in volume with a 30% cut in price. With sales now sanctioned totalling \$258 million in 1985, South Africa would lose \$129 million as a result of coal sanctions in 1987.

The effect of coal sanctions on prices was already visible in Europe at the end of last year—a fall in demand due to the halt in Danish and French pur-

chases of South African steam coal caused the price other European countries paid for the same coal to fall approximately 20% (*Journal of Commerce*, 17 November 1986; *International Coal Report*, Financial Times, 10 October 1986).

Iron and Steel:

Like the coal market, the world steel market is glutted at this time. Thus, the same assumption of a 50% revenue loss due to sanctions will be applied to iron and steel sales as was applied to coal above. Accordingly with 1985 sales to countries that have adopted sanctions estimated at \$791 million, South Africa should lose about \$395 million in 1987 due to sanctions against its iron and steel.

Uranium:

South Africa will probably be able to sell the \$139 million worth of uranium imported by the U.S. in 1985 to other countries by cutting prices approximately 10%, which would give a 1987 loss due to sanctions of \$14 million.

Textiles:

South Africa may be able to sell all of the \$20 million worth of textiles banned in the U.S. to its European customers with price cut of only about 10%. This will result in a loss to South Africa of \$2 million.

Agriculture:

Sanctions by the United States and other countries will affect a significant portion of South African agricultural exports, but these products can probably be sold elsewhere on the world market at a price cut of only about 10%.

Thus, with annual exports to countries that have adopted agricultural sanctions of \$207 million, South Africa will lose about \$21 million due to agricultural sanctions in 1987.

However, an exceptional grain harvest is expected this year in South Africa (*Journal of Commerce*, 22 January 1987). Although grain exports account for only about 2% of total agricultural exports,

Table III.

EFFECTS OF SANCTIONS ON THE SOUTH AFRICAN ECONOMY

Amounts in Millions of U.S. dollars of South African Exports under Sanctions by Country

Country	Commodity							Total
	Coal	Iron Steel	Uranium	Fruits Veg.	Other Agric.	Textiles	Other	
United States (1)	32	267	139	45	77	20		580
E.E.C.	223(2)	324(3)		11*(4)	0.3*		3.5	562
Commonwealth (5)	1.3*	32*		30*	44*			107
Japan		168*						168
Nordic Countries	1.4*	0.2*		21*			35(6)	58
Total	258	791	139	107	121	20	39	1475
Total as % of S.A. 1984 Exports	25%	90%	45%	20%	35%	10%		10%

* Figures for 1984: Foreign Trade by Com-
munities, Series C, OECD Paris 1986.

(1) U.S. General Imports, World Area and
Country of Origin, FT155/1985, U.S.
Department of Commerce.

(2) While the EEC did not include coal
imports in its package of sanctions,
Denmark and France individually sanc-
tioned South African coal imports.
This figure of \$223 million under sanc-
tions represents the 9.9 million tons
of coal Denmark and France imported in
1985 at a projected 1987 price of
\$22.50/ton. Data from Journal of Com-
merce, 17 November 1986; Financial
Times, 14 October 1986; and Interna-

tional Coal Report of the Financial
Times, 10 October 1986.

(3) Financial Times, 6 August 1986.

(4) Ireland has placed sanctions on imports
of fruits and vegetables and Denmark
has sanctions on all imports.

(5) Data for Australia, Canada and New
Zealand only.

(6) Norway has sanctions on all imports
from South Africa; Sweden has sanctions
on agricultural products and may expand
the sanctions to all imports from South
Africa.

the bumper crop could increase export earnings to some extent this year.

Other:

Norway and Denmark have banned all imports from South Africa. These countries annually import about \$40 million worth of goods that do not fall into the above categories. South Africa might lose around 25% on the sale of these goods to other countries, giving a loss of \$10 million.

The sanctions adopted by industrial countries against South Africa will affect trade that is worth \$1.48 billion annually, but South Africa will be able to maintain much of this trade by cutting prices, finding new markets, and transshipping goods through third-party countries.

The estimated loss in export earnings in 1987 due to sanctions, calculated by adding the losses on individual products from above, is \$571 million.

ESTIMATED FALL IN SOUTH AFRICAN EXPORTS
IN 1987 DUE TO SANCTIONS

(in millions of dollars)

Coal.....	129
Iron and Steel.....	395
Uranium.....	14
Textiles.....	2
Agriculture.....	21
Other.....	10
Total.....	571

THE POSSIBILITY OF INCREASED
COAL SANCTIONS

The E.E.C. did not include coal imports in the sanctions adopted in September, 1986, due to the opposition of West Germany and Portugal. This significantly weakened the effects sanctions will have on the South African economy.

Furthermore, Japan, the biggest single buyer of South African coal, indicated last year that it would probably follow the lead of a European coal boycott. Since the September meeting of the E.E.C., the Japanese government has discouraged South Afri-

can coal imports, but has not outlawed them.

However, the possibility of comprehensive coal sanctions still exists. The E.E.C. decided in September to reconsider the issue at a later date, and if the Europeans finally do ban South African coal imports, the Japanese are likely to follow suit.

In the event of such a boycott, South Africa would lose all of its principal markets for coal; as the following table shows, Europe and Japan buy the bulk of South African exports.

SOUTH AFRICAN COAL SALES IN 1985

(000 tons)

(reprinted from International Coal Report
in Financial Times, 10 October 1986)

Japan.....	7,641
West Germany.....	6,432
France (banned in 1987).....	6,432
Italy.....	6,376
Denmark (banned in 1987)....	3,454
Spain.....	2,243
Hong Kong.....	2,242
Israel.....	2,167
Belgium/Lux.....	2,048
S. Korea.....	1,600
Other EEC.....	1,462
Other non-EEC.....	1,815

A comprehensive boycott by Japan and the Europeans would hit South Africa hard. The European countries mostly buy steam coal for power generation. In 1985, the E.E.C. countries which presently have no coal sanctions purchased 18.6 million tons. If they buy the same amount in 1987 at our projected price of \$22.50/ton, their coal purchases will be worth \$418.5 million this year.

Japan bought 5.6 million tons of coking coal for its steel industry in 1986, up from 4.6 million tons in 1985. (Journal of Commerce, 27 January 1987). If it purchases the same amount this year at the current Australian price of \$52.40/ton, South African earnings will be \$293.5 million in 1987.

Subtracting Japanese coking coal imports

from South Africa in 1985 from total coal imports from South Africa in 1985 gives an upper bound estimate of Japanese steam coal imports from South Africa in 1985 of 3.0 million tons. Assuming that this level of imports continues in 1987, at the estimated price of \$22.50/ton, Japanese steam coal imports from South Africa should be worth \$67.5 million this year.

A coal boycott by the Japanese and the rest of the E.E.C. countries would thus affect trade that will be worth about \$780 million (the sum of the above projections) in 1987.

Furthermore, since South Africa would lose almost all of its principal coal markets in the event of such a boycott, it would probably lose more than 50% of current revenue from coal sales as it scrambled desperately for new buyers. This 50%-figure was used in the calculations of loss due to sanctions in the previous section of this report.

IMPORTS

The imports of South Africa are given by category for 1984 in Table IV. Since oil is a strategic material for South Africa and there are U.N. sanctions against its sale to South Africa, it is not listed separately but rather is hidden within the table.

OIL:

Oil is a major strategic import of South Africa because it is not produced in significant amounts in South Africa, except through conversion from coal. It is purchased in spite of an embargo at prices of \$5 to \$8 per barrel above the going rate. South Africa does not publish its oil import statistics, but the Shipping Research Bureau of Amsterdam (Letter of 8 August 1986) has used a figure of 14 million tons per year (279,000 b/d) for imports since 1983. It states that others use a figure as low as 12 million tons per year (239,000 b/d). This lower figure is used here to calculate the cost of oil in the Balance of Payments Table because it gives a conservative value for South Africa's current savings on oil imports. OPEC prices are used, assuming that any embargo surcharge will be

Table IV. South African Imports for 1984.

Commodity	US\$ Million	Per Cent
Food, Beverages, & Tobacco	1007	6.7%
Inedible Raw Mat'l	658	4.4
Animal & Veg. Oils & Fats	162	1.1
Chemicals	1465	9.8
Manufactured Goods	1859	12.4
Machinery & Transport	6362	42.6
Machinery	4698	31.5
Motor Vehicles	1440	9.6
Misc. Manufactures	1203	8.1
Unclassified	2213	14.8
Total	14929	100.0%

Source: Bulletin of Statistics, quarterly, Central Statistical Services, Republic of South Africa; Conversion to dollars - IFS of IMF.

independent of oil price and thus will be a constant part of "other imports". The surcharge costs are equivalent to an increase of \$5 to \$8/barrel and the lower figure would amount to an annual surcharge cost of \$440 million.

The oil import costs shown in the Balance of Payments Table for the first two quarters of 1986, are low because South Africa was known to be stockpiling oil during this period of declining oil prices. However, the amount stockpiled is unknown.

Projections are made into 1987 by assuming a price of \$18/barrel will be maintained by OPEC.

OTHER IMPORTS:

"Other imports" is the difference between the known total imports and the estimate of the oil costs. In order to project import costs into 1987, these other costs are projected at their average value for 1986. This assumption

tion provides an upper value for other imports for a lean South African economy, since it does include an unknown amount of stockpiled oil.

BALANCE OF TRADE:

The balance of trade in 1986, which is the net of exports and imports f.o.b., was \$6.9 billion, and is expected to rise to about \$7.5 billion in 1987 because of the net effects of the price increases of gold, platinum, diamonds and oil.

OTHER GOODS, SERVICES AND INCOME

The details of "other goods, services and income" are given for 1985 in Table V.

By using the January 1987 issue of *Balance of Payments Statistics* of the IMF which contains a breakdown by the major categories of Table V for the first and second quarters of 1986, the investment income paid out by South Africa in 1986 is estimated to have increased by about \$200 million, of which about half was probably the increased interest rates. Since the new arrangement for the debt under the

Table V. 1985 Other Goods, Services and Income in Millions of U.S. Dollars.

Item	Credits	Debits
Freight & Merchandise Insurance	189	-924
Other Trans. & Travel	1024	-895
Investment Income:	584	-2782
Direct:		
Dividends	186	-207
Interest	37	-154
Br. Profits	20	- 60
Indirect:		
Dividends	12	-312
interest	247	-1878
Taxes	82	-170
Other Services	848	-1382
Total	2645	-5983

Source: South African Reserve Bank, *Quarterly Bulletin*, December 1986.

moratorium maintains the same interest rates as the first arrangement and because international interest rates have been relatively stable over the past year, other goods, services and income can be extrapolated uniformly into 1987 from the 1986 data. This estimate should provide a lower bound, since dividends on mining stocks should be rising in 1987.

BALANCE ON CURRENT ACCOUNT

When the net service payments are added algebraically to the balance of trade and the net unrequited transfers, the result is the balance on current account. Note that the projected balance on current account includes all interest payments on the debt, both long-term and short-term debt, as well as all other return on investment.

The balance on current account for 1986 is about \$3.1 billion. When the first quarter projection for 1987 is assumed to be a relatively stable value for all of 1987, the resulting balance on current account without any effect for sanctions becomes \$3.7 billion. If sanctions are fully effective for all of 1987, the balance on current account will be reduced by \$570 million to \$3.14 billion.

PART III CAPITAL MOVEMENTS

Because the new interim arrangements of 24 March 1987 are for three years and cover most of the short-term debt, the usefulness of discussing capital movements in terms of short- and long-term capital flows is viated. Thus these capital flows will be discussed in terms of flows under the interim arrangement (inside the net), flows outside the net and other flows. The flows outside the net are those payments on primarily long-term capital which are commitments of the government of South Africa or are guaranteed by it. The latter would be debt of the various parastatal corporations such as the Electricity Supply Commission (ESCOM). The sum of these two flows represents the total of known commitments guaranteed by the government of South Africa. To this total must be added the "Other" capital flows whose amounts can only be estimated since they represent trade credits which may be rolled over as well as errors and omissions.

For other capital outflows, which include the trade credits insured by other governments and errors and omissions, the Reserve Bank gave the figure of -\$984 million for

the first half of 1986. However, in the third quarter the Reserve Bank gave a net flow of +\$17 million into South Africa. Sufficient data to back-calculate the flows will not be available until the full data for the end of the year is published. However, the gross outflow component for the second half of the year will probably lie somewhere between zero and \$500 million. Reserves increased the third quarter by \$293 million, not including the increase of IMF funds arising from repayments. When valuation adjustments were made for the increased price of gold, this number increased to \$829 million.

The resulting surplus that South Africa will achieve if imports are limited to the 1986 level is shown in Table VII. The gross surplus is calculated as the balance on current account less the effects of sanctions and committed long-term capital outflows, including repayment of reserves to the IMF.

Other capital outflows include trade credits which have not been rolled over and errors and omissions. South Africa's regu-

Table VI. Total Capital Outflows from South Africa in Millions of U.S. Dollars.

Type of Flow	1986		1987		1988	1989	1990	
	H1	H2	H1	H2			H1	H2
Interim Arrangement (Inside the net)	-494	- 48	- 48	-508*	-400*	-346*	-166*	---
Outside the net:	-1165#		-1305#		-1229#	-823#	-998#	
Bearer Bonds	-146	-106	-345					
Reserve Bank, etc.	-458	- 72	-492#					
IMF	-158	-225	-468					
Total Committed Payments	-1717		-1861		-1629	-1169	-1164	

Sources:

South African Reserve Bank, *Quarterly Bulletin*, September 1986.

#2418 Exchequer and Audit Act, *Government Gazette*, Republic of South Africa, No. 9979, p. 47, 25 October 1986. The more recent statement #2076 in No.

10464, p. 26, of September 1986 was not available in the Library of Congress by March 1987. Since the available data were for 31 March 1985, known bonds and loans arranged after that date were added to obtain the above figures.

* *Financial Times* (London), 25 March 1987.

Table VII. Estimated Surplus of South Africa in Millions of U.S. Dollars.

Account Item	1986	1987	1988
Balance on Current Account	3152	3708	3708
Present Sanctions	0	- 571	- 571
Committed Capital Payments (Table VI)	-1707	-1861	-1629
Gross Surplus	1445	1276	1508
Other Capital Flows	-984*	?	?
Net Surplus	461		

* Outflow of other capital in the first half of 1986. Third quarter net flow was slightly positive and fourth quarter is not yet available.

lations seem to have brought unrecorded capital flight under control, such that errors and omissions have moved from large negative numbers in 1985 to small positive values in 1986. Thus the outflow can be presumed to be mostly trade credits which have not been rolled over. During the first half of 1986 these amounted to about \$1 billion but were much smaller in the third quarter, being counter balanced by inflows of prior committed capital, probably of the order of a couple of hundred million dollars. Thus for the second half of 1986 there may have been a half billion dollars of new capital flowing in to compensate a gross outflow of about the same amount. This would give a net surplus of as much as \$461 million.

In 1987 and 1988 the gross surplus is estimated to be \$1276 million and \$1508 million, respectively. To this can be added a large portion of the unused commitments of foreign banks. These commitments of the UK-registered banks and the U.S. banks alone amounted to \$1165 million in mid-1986, as shown in Figure 3. Thus inward flows of the order of \$500 million per year are likely for the next couple of years from the U.K. alone, not to mention continental Europe. The net of this flow and any decrease of trade credits would be added algebraically to the gross surplus to

yield the net surplus.

Thus the only way to reduce the net surplus of South Africa in 1987 and 1988 is through reduction of trade credits and sanctions on coal by Germany and Japan. Trade credits guaranteed by OECD governments amounted to \$2882 million in mid-1986, and another \$800 million per year might be eliminated from the trade balance by the additional coal sanctions. If Germany and Japan imposed effective sanctions on coal, South Africa's export market would be so limited that, even if prices were reduced to the level of the cost of production, South Africa might not be able to move significant amounts of coal. Thus surpluses running at about \$1.4 billion per year for South Africa for the three and one half years from the beginning of 1987 through mid-1990 could be countered by this combination of trade credit restrictions and more extensive coal sanctions.

lassen würden, gekürzt werden.

Die Summe aller zwischen Anfang 1987 und Mitte 1990 (wenn das Stillhalteabkommen auslaufen wird) akkumulierten Überschüsse würde bei etwa 5,7 Mrd. Dollar liegen. Sie könnten durch einen ebenso hohen Kapitalverlust aufgewogen werden, wenn sämtliche OECD Handelskredite zurückgezogen und die Bundesrepublik und Japan Kohlesanktionen aussprechen würden.

(Diese Projektionen gehen von gleichbleibenden Ölpreisen von 18 Dollar/Barrel und gleichbleibenden Goldpreisen von 405 Dollar/Feinunze aus. Steigende Goldpreise von 50 Dollar je Feinunze entsprechen einem steigenden Leistungsbilanz-Überschuss von jeweils 400 Mill. Dollar; Südafrikas Leistungsbilanz-Überschuss sinkt um jeweils 400 Mill. Dollar, sobald sie Ölpreise um jeweils 5 dollar je Barrel steigen.)

