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ZAMBIA - 1968

by

PROFESSOR B. COCKRAM

WARNING

JAN SMUTS HOUSE
UNIVERSITY OF THE WITWATERSRAND

3rd June, 1968

Z A M B I A - 1968

Over a year ago I suggested that the Zambian government had, by committing the country without reservation to sanctions against Rhodesia, embarked on a course which had already damaged and would continue to damage its economy, would lead to frustration, resentment, and possibly to violence, and would cause a steady deterioration of relations with Britain, which Zambians would blame for leaving them to bear the brunt of a policy which the British government had initiated. This has happened.

I. SANCTIONS

A. Imports into Zambia

The UN resolution of 22nd November 1965 recommended member countries to sever economic relations with Rhodesia. The U.K. did so, to the extent of about 95%, but Zambia continued to buy from Rhodesia both commodities essential to the operation of Zambian mines and industries, and, to a decreasing extent, consumer goods, both food (meat in particular) and manufactures, which could not readily be replaced from other sources.

(i) Coal - The most important of the former was coal, because the copper mines had depended on coal from Wankie in Rhodesia. Zambia took immediate steps to develop her own coalfields, but the poor quality of the coal, and the necessity of carrying it by road, have combined to make the continued use of coal from Wankie essential. In 1967 Zambia had to import 850,000 tons from Rhodesia, as against 4-500,000 tons of local coal. Even so on 1st March 1968 the copper companies had to announce a force majeure cut of 20% in shipments of copper until further notice, because Zambian Railways had been unable to deliver sufficient quantities of Wankie coal to formulate correct mixtures with the locally-produced Lhandabwe coal, which has a much lower thermal efficiency, for the mines to maintain normal output, and to keep furnace damage to acceptable levels. Coal which should be available later this year from the Siankodoba field will not be much better. Use of different fuels and fuels of varying quality has resulted in deterioration at an abnormal rate as well as unplanned shutdowns. Even so the division of the joint Rhodesia Railways last year into Zambian Railways and Rhodesia Railways has led to both failing to carry enough Wankie coal even to maintain the proportion which must be used on the copper mines, and the mining companies have/had to employ South African road haulage companies to keep up the stockpile at Livingstone, and supplement the railway lift from there.

The problem has not merely been one of acquiring and delivering the coal from Rhodesia. Special furnace oil has had to be flown in by aircraft, purchased by the R.S.T. and the government, and an oxygen plant is being installed to breathe some life into Zambian coal. R.S.T. had to shut down, for at least three months, one of the three reverbatory furnaces at Mufulira, its biggest producer, and to plan subsequent shutdowns of the others for repair. Because of the congestion in the shunting yards Anglo-American has also been running at a low level.

(ii) Beef - The sanctions against meat and meat products became mandatory a year later in December 1966. Zambia has continued to take any Rhodesian beef which has been on offer, but the South African market has been more profitable and the supply to Zambia has been cut proportionally.

(iii) Consumer goods - Zambia had been the best export market for Rhodesian manufactures of foodstuffs, drinks, pharmaceuticals, textiles, boots and shoes, furniture and automobiles. Even before U.D.I. Zambia was developing her own manufactures, has continued to do so, and has sought to replace Rhodesian exports with similar articles from other countries, including South Africa, but both have proved more expensive, and the cost of living has risen. There also seems little doubt that some Rhodesian exports have continued to find their way in. It was reported in August 1967 that the customs in Zambia had seized in the preceding weeks many hundreds of thousands of pounds worth of goods, ostensibly manufactured in Mozambique, but bearing unusually striking resemblances to similar Rhodesian products. The latest Lusaka report states that while imports from Rhodesia were £35.5 m. in 1965 and £23.1 m for 1966, they were still £13.1 m. in 1967.

B. Exports to Rhodesia

Zambia was never a large exporter to Rhodesia, and the only mandatory prohibitions have been those on the export of petrol and arms. Zambia has been so desperately short of petrol that it has been more drastically rationed than Rhodesia, and earlier this year was in such straits that Mr Smith offered to reopen the Feruka refinery if Zambia would like to use the pipeline from Beira and import the petrol from Feruka. So far as arms and ammunition are concerned, the only ones sent by Zambia to Rhodesia have been in the hands of terrorists!

Short of destroying its economy Zambia could scarcely have done more to fulfil its obligations under the UN sanctions resolutions; the effects, particularly of the attempt to replace Rhodesian coal with local coal, have been serious, and there have been few complaints about the extent of her failure.

II. THE ATTEMPT TO USE THE CONFLICT WITH RHODESIA TO GET RID OF ZAMBIA'S DEPENDENCE ON RHODESIA'S COMMUNICATIONS AND ELECTRIC POWER

It has been the Zambian government's decision to utilise the British dispute with Rhodesia to spearhead the African crusade against Rhodesia which has been far more serious in its effects than participation in UN sanctions. The hope was to force Mr Smith's government to capitulate by cutting off the revenue which Rhodesia continued to draw from Zambia for the carriage of Zambian imports and exports over the Rhodesia Railways, and, as soon as this might be possible, the revenue which it drew for power supplied from the Kariba power station. To this end Zambia hoped to be able to make use of alternative routes for imports and exports, and to develop its own source of hydro-electric power in the Kafue valley.

(a) Communications

(i) The Tanzam Railway - The alternative to Rhodesia Railways which the Zambian government preferred was a railway to be constructed from Lusaka to the sea at Dar-es-Salaam, since this would be the only route under African control the whole way. I have mentioned previously that the World Bank, which the Zambian government hoped would finance the building of this railway, rejected it as uneconomic. Zambia had therefore to find another sponsor and an agreement was signed in Peking in 1967, which provided initially for the completion by (Red) China of a survey of the route within a period of 15 months. The Chinese government also offered to build the railway, and to finance it with a £100m. interest-free loan. According to a report in the Financial Mail on 10th May of this year (1968), a preliminary survey of the route had been made, and most of the 300 Chinese experts who are to complete the survey were due to arrive (some have already done so). The line will pass through Mkushi and Serenje, go west of the Great North Road, close to Kasama, and thence to Mbeya and Makumbako, joining the existing East African rail system at Kidatu. It will be built to existing Zambia Railways standards in respect of weight of rail, gradients, curvatures, axle-loading and so on. Locomotives and rolling stock will be supplied to specifications laid down by Zambia and Tanzania. The major problem still to be overcome is the difference in gauge between the two systems: the Zambian is 3'6" and the Tanzanian 39.37". For traffic up to two million tons trans-shipment facilities at the junction of the two systems would present the most economic solution, and this is the initial estimate of the traffic likely to use the railway on completion; but, between two and four million tons, it would be more economic to rebuild the existing line right through to Dar-es-Salaam.

Tanzania, which has had more experience of Chinese contracts than Zambia, was reported in 1967 to be inclined to seek aid from companies in western countries for the building of the railway. The Zambian government believe, however, that government sponsorship of so large a project will be needed and only China is prepared to offer this. Details of the arrangements discussed in Peking have not been published, but "it seems likely that final arrangements will include clauses under which repayments will either be suspended, or will not be required during any period in which the line is not making a profit; this type of agreement is already in operation in respect of a shipping line which Tanzania set up jointly with China. No unskilled or semi-skilled Chinese labour will be used on construction, and the 300 engineers, surveyors, designers, geologists and economists engaged for the design work will be the maximum number to be used. The Chinese government may seek to find their repayment in part in the sale of locomotives and other rolling stock when the railway has been completed. Zambian officials have indicated that design work will take until 1970 and that the construction will then take a further five years." It is clear that a seven-year delay in completion will mean that the railway can offer no solution to Zambia's immediate transport problem.

(ii) The Great North Road - The alternative preferences of the Zambian government for use during these seven years, and which could subsequently be supplementary to the Tanzam railway, are the Great North Road, which the railway will roughly parallel, and the pipe-line for petrol which is now being laid. The road is the now notorious 1,200 mile 'hell-run', which is still suffering from damage caused during the last rainy season. In January 30 trucks were bogged down in a remote area between Kasama and Abercorn, and congestion and damage were made worse by the closing of the road route in northern Zambia (which links with the steamer service across Lake Tanganyika, and thence to the existing railway line across central Tanzania), and the diversion of trucks carrying heavy loads of copper and petrol to the southern road. Delays in payments for freight and of compensation for damaged vehicles led more than 50 private transporters in January to warn that they would withdraw their trucks if payments of £250,000 due to them were not paid immediately. Sub-contractors have between 300 and 600 trucks on the road and the restriction of transport work by road to Zambians, which is part of the recent regulations for the increasing Zambianisation of business, may cause a number to go out of business. It was not until mid-April that traffic along the road route 'got cautiously under way again.' The World Bank are giving Zambia a loan to be spent mainly on tarring the Zambian sections of the Great North Road to Tanzania, as well as the Great East Road to Malawi, and this should greatly improve both roads when the work has been completed, but it will take some years if it is to be done properly.

(iii) <u>The Pipe-line to Dar-es-Salaam</u> - the pipe-line, of which 800 miles have been laid, is due to come into operation in September next, and could provide much relief to the road route if it does before the following rainy season towards the end of the year. The five pumping stations are half-completed, and the latest forecast is that the pipe-line may begin to operate by the end of August. Probably southern Tanzania will be supplied first.

(iv) <u>The Airlift to Nairobi</u> - Other all-African routes include the airlift to Nairobi, which is operated by Zambia Air Cargoes, owned by the R.S.T. and flown by five Hercules aircraft. They have been described as among the hardest-worked freight planes operating outside Vietnam. They clock up 360 hours flying time a month, i.e. about 12 hours a day, as compared with 250 hours during the Berlin airlift. The aircraft cost R2m. each and copper and petrol are ferried at sub-economic rates, so that Zambia Air Cargoes shows losses running into hundreds of thousands each year. In all 107,000 tons have been carried in two years, including rather less than 5% of Zambia's copper production. The airlift has not been much more than a political gesture and the destruction of two of the Hercules aircraft in April (an incoming hit a stationary one) may well result in the airlift being completely abandoned as soon as the pipe-line is in operation.

(v) <u>The Benguela Railway</u> - There are two remaining routes, neither exactly popular with the Zambian government because they simply substitute a Portuguese for a Rhodesian stranglehold, but either of which they prefer to use at the moment in preference to Rhodesia Railways: the Benguela Railway across Angola to Lobito Bay on the Atlantic, and the road-rail route through Malawi to Beira on the Indian Ocean. The former is known to Angolans as the 'Line from Heaven to Hell,' Heaven being represented by the Lobito Bay section and Hell by the inland section which adjoins the Katangan and Zambian Railways, the two ends being separated by 834 miles of railroad. The inland section is a regular target for guerrillas or terrorists seeking to interrupt communications in Angola, and they are based on the Congo or (less frequently) Zambia. The stations are fortified and the trains are preceded by armoured and troop-laden railcars through the last 200 miles. Both the Congolese and Zambian governments do their best to discourage guerrilla attacks on the railway because both use it for vital exports and imports, but the guerrillas do not worry unduly about the economic interests of the countries which serve as hosts for their training camps and operational bases, and traffic along the Railway is periodically interrupted by the blowing-up of bridges or the sabotage of the track. In spite of this the Railway handles up to 200,000 tons of freight a month, of which about 44,000 tons is for Katanga and about 21,000 tons for Zambia, including 15,000 tons of copper. In May last the Railway ferried 800 Japanese freight cars and 26 diesel- electric locomotives to Zambian Railways. This traffic is of such importance that when attacks were made by guerrillas on the Railway in January and April 1967, the leader of the Angolan Nationalist party, UNITA, which had been operating from Lusaka for a year, was forced by the Zambian government to leave the country, as the result of threats by the Portuguese government to prevent the use of the Railway by Zambia if he was allowed to remain. The Railway could become of even greater importance to Zambia as a source of petrol with the development of the Angolan and Cabindan oilfields. The Benguela Railway Company is now proposing to increase its carrying capacity by linking the Angolan section directly with Bancroft in the Copperbelt, in order to provide an alternative and shorter route than the Katangan section of the line. The cost would be £30m, much less than the cost of the railway to Dar-es-Salaam, and Lobito Bay has the advantage of being half-way to the European and American markets. To the extent that the Benguela Railway builds up its freight capacity, it will be competitive with the Zambian Railway, any profits of which will be reduced correspondingly. But until the new section is available, or the Railway is double-tracked, its carrying capacity will not enable much more freight to be carried for Zambia than is sent at present by it.

(vi) The Malawi-P.E.A. Route - The road and rail route via Malawi and P.E.A. consists at present of a road, the Great Eastern Road, now to be tarred, through Zambia to Fort Jameson, and thence via Lilongwe to railhead at Salima, whence the Malawi and P.E.A. Railways carry the traffic to Beira.

And two routes which might be used in future

(vii) The Malawi-Nacala Route - A second railway is now planned to link the Malawi Railway westwards, via the Shire River, to the P.E.A. line from Beira to Tete, and eastwards to the Portuguese line from the port of Nacala, 500 miles north of Beira. It is estimated that of the latter link, 70 miles would have to be built in Malawi and 50 miles in P.E.A.. Construction was approved in principle in 1966, and it was then estimated that it would cost only R6m. Dr.Banda was able to announce in October that Japan would provide the necessary funds. The section to link with the Tete line would enable the new line to tap the increased traffic which will become available with the development of the Cabora-Bassa hydroelectric project in the lower gorge of the Zambesi. Less than a month ago Dr.Banda announced that South Africa would provide R11m. for the construction of the line. (Lusaka itself is only 150 miles from P.E.A. and an extension of the Railway from Tete to Lusaka is another possibility.) Again the Zambian government's political decisions have conflicted with its economic advantage: in 1967 it gave help to insurgents in Malawi, who supported Mr Chipembere, the former home minister, and an opponent in exile of Dr.Banda, and it has recently permitted other terrorists to operate from Zambian bases into the Cabora-Bassa region. When the Cabora-Bassa project is in operation, Malawi will have a cheap source of power with which to develop its own industry, and particularly its bauxite deposits, and this may not be unconnected with subsequent purchase of the bauxite by Japan. The development of P.E.A. and Malawi by massive investment of Japanese and South African capital cannot be welcome to the Zambian government, and the latter is unlikely to drop the much larger and more expensive Dar-es-Salaam railway in favour of new rail links with the Malawi and P.E.A. lines, but until the Dar railway has been constructed, Zambia will probably continue to use the existing Malawi route. Dr.Banda has not been slow to point out that a condition of continued use will be that Zambia must put an end to the training and infiltration of guerrillas into Malawi. Meanwhile, the capacity of the Malawi Railway is to be increased by 200 freight cars ordered from Japan at a cost of nearly R2m. and when the road from Lusaka to Fort Jameson has been tarred an increase of the freight at present carried can be expected, but from the absence of any figures for the present freight-level*, it can be assumed that the total is very much smaller than that carried by the Lobito Bay Railway.

(viii) The Congo-Rail-River Route - The Zambian government had originally hoped to make considerable use of the Congo rail-river-rail-river route from the Katanga to Matadi, but the resumption of copper exports from the Katanga by this route led the Congolese government to limit use of it to Congolese traffic. I have been unable to find out whether any Zambian imports are still being sent by this route.

The net result is that 80% of all Zambian traffic is still being carried by Rhodesia Railways, that the latter has been able to increase its freight charges for Zambian copper from 16/- to 20/- a ton, and is reducing its own deficit by so doing. And for seven years to come it looks as if the stranglehold of Rhodesia Railways will continue. The attempt to use alternative routes as an additional sanction against Rhodesia has completely failed. By the time that the expensive Tanzam Railway is built (1975), other shorter and cheaper routes may make it, as the World Bank feared, something of a white elephant.

(b) Hydro-Electric Power

The copper mines continue to draw most of their electric power from Kariba (2,368 kwh in 1967, an increase of 26% over the 1966 figure) and will continue to do so at least until the completion of the Kafue hydro-electrical project. The latter is estimated to cost £40m. and the Yugoslav concern which won the main contract is said now to have no prospect of raising the £2½m. which it hoped to obtain within Zambia to start. This may cause further delay and it is significant that the Zambian government have had to agree to help finance the construction of a new discharge tunnel on the north bank of the Kariba dam to prevent damage resulting from difficulty in controlling the lake level with only one power station as a continuous outlet. They have refused to contribute to the second power station originally envisaged but the cost to Zambia of this alternative precautionary measure may well be one-third (i.e. R10m.) of the R30m. which the second power station was expected to cost. This £5m. has therefore to be added to the £40m. of the alternative Kafue scheme and Zambia continues to be dependent on Rhodesia for its electric power for the copper mines.

III. COPPER PRODUCTION

All the Zambian government's calculations in relation to its ability to participate in sanctions, and to lead African

* It has subsequently been reported that all Zambia's diesel fuel has been imported by this route and 6,000 tons of copper exported monthly.

opposition to Rhodesia, were based on continuation of the prosperity of the copper mines, and the capacity of the Treasury to finance the cost to Zambia of both, by obtaining increased revenue from the production and export of copper. If this revenue proved insufficient they hoped to persuade Britain, and, less hopefully, the UN to compensate Zambia for any small shortfall. Here again hopes have proved deceptive.

(a) The Copper Mines - I dealt in a previous talk with the rising costs caused by increases in the wages of Zambian mineworkers, increases which the government had supported. I have already mentioned today the effect of sanctions, and of the government's search for alternative freight routes to Rhodesia Railways, in reducing and interrupting production at the mines, and in imposing delays and additional freight charges on the export of copper. In combination they have resulted in the mining companies losing much of the advantages of the increase in world prices brought about by the demand for copper caused by the escalation of the Vietnam war, and the very prolonged strike of the principal American copper producers, Anaconda. While the Chilean producers, such as the Braden Company, and even the Union Miniere/mines in the Katanga were able to profit, the Zambian companies, which might have scooped the pool, did much less well than they should have. Substantial tonnages had been sold in advance under contracts, concluded in 1966, at the previous production level of £336, and these could not be made up by additional production, with the result that the average revenue was only £380. 9. 0., compared with the London Metal Exchange forward price of £486 a ton. Even so the average price was £108. 7. 0. a ton higher than in 1966, but the average costs increased to a similar extent from £180. 9. 0. to £280. 4. 0. a ton, with an increase in the export tax accounting for £62 of the increase in costs. The value of Zambia's mineral production for the first six months of 1967 dropped, as compared with the same months of 1966, from £110,236,366 to £102,537,077 and production fell for the 12 months from June 1966 to June 1967 from 280,018 m. tons to 226,780 m. tons. Copper represents only 2.4% of the ore extracted and the cost of production in Zambia is now by far the highest in the world at an average of £300 a ton; is continuing to increase at the rate of £4 a ton every month; and will, if this increase continues, reach £350 a ton by the end of the year. As the mines go deeper for their ore there are serious technical difficulties, and considerable investment will be needed to keep them at their present production levels. With the settlement of the Anaconda strike, and the negotiations for a cease-fire in Vietnam, the price of copper has fallen, is falling, and, according to the British Board of Trade Journal this weekend, will continue to fall for the next two years. In the hope of getting such prices as are now ruling the copper-producing countries have therefore agreed, also this weekend, to sell at cash prices instead of continuing on the three-month basis which would only have resulted in sales at the lower level then expected to be operating.

The result has been that the copper industry contributed only 38% of the country's net domestic product in 1967, compared with 47% in 1966. While it represented 95% of domestic exports, its contribution to government revenue, fell from £163 m. to £150 m. at a time when overall government revenue increased from £255 m. to £268 m. (according to the Zambian Mining Industry Year Book). This corresponds to a decline from a 64% contribution to government revenue to only 56%. In consequence the new Minister of Finance, Mr Elijah Mudenda, has had to budget for a 50% deficit on capital account, i.e. for a deficit of R86 m. on a total of R168 m.

It is no wonder, therefore, that Anglo-American has been on the one hand seeking to balance the potential risk involved in its Zambian investment by investing elsewhere, in Canada, Australia and even Mauretania, and on the other, seeking outside capital for such further development as is needed in Zambia. It was announced last month that the Mitsubishi Trading Company and Mitsui & Company have agreed with Anglo-American to provide £23 m., of which £14 would be in capital and £7 m. in equipment in exchange for 100,000 tons of copper yearly over a period of more than 10 years. The objective will be to build up the group's copper production from 470,000 tons to an annual total of nearly 800,000 tons by increasing production at Rhokana, Nchanga and Bancroft. It was reported, when the Zambian government announced its take-over of a number of expatriate controlled businesses that the Japanese companies had delayed completion of the deal, but that they had been reassured by the Zambian government's rider that foreign investments would be protected by law. R.S.T. have, ten days ago, announced that they too will expand to a similar annual production of 800,000 tons, although I have seen no reference to the manner in which they propose to raise the necessary £5 m.

The Japanese deal will also enable the copper companies to meet, to some extent, the complaint of Mr Grey Zulu, the Zambian minister of mines, that both Anglo-American and R.S.T. had been guilty of the 'serious economic crime' of not exploiting low-grade ores. This criticism had ignored the fact that both companies were operating under increasing difficulties, at higher cost, and with uncertainties of price and transport, which gave them every incentive to make such profits as they could and while they could. But new processes have made exploitation of inferior ores payable, and the new investment has come at the right time to permit this. For the time being at any rate it would seem as if the Zambian government have decided that they and the copper companies had better hang together in order to avoid hanging separately. The state-owned Zambian Industrial Development Corporation is, for example, anxious to increase to 51% its proposed 25% share in the £1 m. copper fabrication plant desired by Mr Kaunda and for which U.S. and Swedish co-operation, to the extent of 15% each, had been arranged. Phalaborwa has agreed to smelt and refine 40,000 tons of copper for R.S.T.

(b) <u>British and UN Aid</u> - Mr Mudenda's deficit of R86 m. on capital account was, according to his statement, to be made good by a refund of R46 m. from Britain in compensation for losses incurred by Zambia as a result of operating sanctions, and by foreign loans of R40 m. The British government have, however, made it clear both before and after his statement, that the financial and economic position of Britain is such as to make further aid to Zambia out of the question, and I have seen no reports of further foreign loans. Instead, it is obvious that Zambia is going to find it difficult to raise the necessary funds for Kafue.

The British refusal has been made infinitely more serious for Zambia by the resolution passed last week by the Security Council imposing complete and mandatory economic sanctions against Rhodesia, and calling upon member countries of the UN to cut off all trade and financial relations with Rhodesia. It looks, on the face of it, as if this requirement should prevent the use of Rhodesia Railways for the transport of any goods to or from Zambia. If so, it is impossible to see how Zambia could comply with it while 80% of her external trade is still carried by Rhodesia Railways. The resolution calls on all member countries to assist Zambia in the difficulties which it recognises the resolution will cause Zambia but does not specify in what way they should do so. While the prohibition is mandatory, the aid is not. Nor have Zambia's earlier efforts to obtain substantial UN aid been successful. The full text of the UN resolution is not available, but the summaries published so far seem to make it certain that the country which will most immediately and obviously be guilty of breaking the UN injunction will be Zambia. This would be a fantastic situation, but the whole of the UN's sanctions effort has so ignored geography, the known intentions of Rhodesia's other neighbours, and the failure of sanctions so far to do more than slow down the Rhodesian economy, that it might have been devised in cloud-cuckoo land. At each stage it has hit Zambia harder, and is in course of reducing the African state which possessed, at independence, the most prosperous economy and the largest reserves, to the position of being an international mendicant.

IV. INEVITABLY THIS SITUATION HAS LED TO WEAKENING OF THE GOVERNMENT

A <u>The Guerrillas</u> - When the first group of guerrillas were allowed to cross into Rhodesia the government, in practice, ceased to be able to control them, or the consequences of whatever they might do. I mentioned the scale of this and subsequent guerrilla incursions into Rhodesia in my talk on Rhodesia a month ago. So far under 1,000 guerrillas have crossed the Zambesi, and, although their round-up has involved a massive effort by the Rhodesian police, security forces and army over a period of nearly a year, the Rhodesian Deputy Minister of Information, Mr P.K. van der Byl, was able to announce on Saturday that it had been completed.

The Rhodesian government has made it clear that it knew exactly where their training camps in Zambia were situated, but ministers have been extremely moderate in their statements, having regard to the fact that thousands of square miles of Rhodesian territory have been subjected to armed invasion, and a number of Rhodesians killed or wounded in the course of operations which were at times so extensive that South African police were sent to co-operate with them.

South African ministers have been more forthright. They have repeatedly emphasised the seriousness of the threat which the guerrillas constitute to all the countries of southern Africa, and their knowledge that a number of the guerrillas were members of banned South African political organisations, and that the target of these was South West Africa or South Africa itself. They have stated explicitly that they will continue to participate in counter-action so long as the threat remains, that they are aware of the aid given to the guerrillas by"certain"African states, and that they will, if necessary, take retaliatory action. Mr Vorster has said that "if Zambia wanted to try violence South Africa would hit Zambia so hard she would never forget it," and Mr Botha has hinted that South Africa might have to follow the example of Israel - an allusion to the punitive Israeli raids into Jordan because that country allowed its territory to be used as the base for terrorist infiltration. Mr Kaunda has replied speciously that Zambia has no need to organise guerrillas since she has no aggressive intention against her neighbours: "we have no guerrillas in Zambia," he said, "we have no use for them," and Mr Kamanga, the Foreign Minister, argued that "terrorist activity had been caused by South Africa and Rhodesia. This was their problem and had nothing to do with Zambia." These statements are, of course, transparent evasions of their government's responsibility for seeing that no guerrillas of whatever nationality are allowed to use Zambia as a base for action against other countries. Dr.Banda and the Portuguese Foreign Minister have both subsequently accused Zambia of allowing its territory to be used as a base for action against their countries. The accusations would have done Mr Kaunda no harm with his countrymen had the guerrillas from Zambia been successful in any of the countries which they have sought to infiltrate but their failure in all has left Zambian ministers facing the charge that they have failed to give adequate support to the guerrillas, whose very existence they have denied, and whose sacrifice in the cause of African unity has been fruitless. Ministers, in retaliation, have accused members of the 13 exiled African nationalist movements operating from the officially-sponsored 'Liberation Centre' in Lusaka, of being not 'freedom fighters' but, in Mr Kaunda's words, 'chicken in the basket' resistance men (after their favourite dish at the hotel they frequent.)

It is, however, Zambians, not exiles, whose support is necessary to the Zambian government and whose dissatisfaction the government has to fear.

(B) <u>The Brave New World</u> - The effect of sanctions, and of the effort to make Zambia economically independent in every way from Rhodesia, which have led to purchases, for political reasons, from more expensive sources, to higher freight rates, and to subsidisation of local industries, have caused the cost of living in urban areas to increase up to 50%. While it is to these areas that Zambian workers have flocked for the higher wages which they can obtain, they have also found inadequate housing, expensive transport, and frequent shortages. In the countryside life has continued with little change. But neither in the town nor at traders' stores in the country has there been much sign of Africa for the Africans. The expatriate community has remained at much the same level, has done so because both pay and profits have been high for whites, and has often expressed its opinion of the incapacity of the Zambians to undertake positions of skill or responsibility. Because more Zambians are flocking into the towns all the time there continues to be high unemployment and the average income is still only about £80 a year.

One key to the problem is education, and the Zambian government has been doing its best. By 1970 every child will receive 7 complete years of primary education free. For a population of 3,800,000 this will be a major achievement. Secondary education was given to 9,000 children in 1964, 12,800 in 1965, 23,800 in 1966 and 35,000 in 1967; the planned number for 1970 is 61,300 (in addition to facilities for 2,000 Europeans). The University of Zambia at Lusaka was opened in 1966 with 312 undergraduates, and now has 514. By 1971 there should be places for 2,500 in faculties of arts, science, teacher-training, engineering, medicine, agriculture, administration and law. But the great increase in numbers has inevitably led to the frustration of rising expectations; of 41,000 children who will finish their primary education this year, the secondary schools can only take 14,000, and of the 7,000 or so finishing their secondary education the university will only be able to take about 200,(on a straight proportional calculation.)In October last year President Kaunda found it necessary to attack the students at the university and to threaten that they needed to be 'disciplined in some way.' The problem will not decrease because the students - like students all over Africa - want to become white-collar workers at expatriate salaries, and Zambia, like other African countries, needs first and foremost trained farmers, engineers, veterinarians, rural doctors and nurses, at the salaries appropriate to Zambian conditions.

If education is one of the keys to a new unity in the African state another is to supply an alternative focus for loyalty than the tribe. In Zambia there are 72 tribes, the more important of which are the Bembas, the Lozis of Barotseland, and the Ngonis in the east. A secessionist movement has sprung up among the Ngonis and there is now a good deal fo discontent among the Lozis. Among the Lozis loyalty to the tribal ruler, the Lewanika, had produced a strong move for a separate state before Zambia became independent. Inevitably the old loyalties have come to be reinforced and disguised by membership of separate political parties. The largest tribe, the Bembas, are the core of the governing UNIP, and have tended, in consequence, to monopolise ministerial and civil service posts. They made sweeping gains at the election in 1967 at the expense of the Lozis and the eastern tribes, which supported the ANC party. Mr Wina, a Lozi, lost his post as Minister of Finance, to Mr Mudenda, who had been Minister of Agriculture. The former Minister of Mines and Lands became Minister of Home Affairs and Mr Simon Kapwepwe, another Bemba, replaced an eastern, Reuben Kamanga, as Vice-President. By 1968, however, the ANC had consolidated its forces among the tribes and when four of its remaining members crossed the floor and joined the UNIP they were all crushingly defeated in the by-elections which are constitutionally obligatory in such circumstances. President Kaunda revealed that, before the by-elections, he had himself resigned for some hours in disgust at the tribal warring going on within the parties which form the government coalition. He may have been doing a Nasser, but the significant thing is that he did it. The sect which acknowledges Alice Lenshina as its leader has rejected the whole set-up, and the ruthlessness with which members were harried and killed during their flight to the border shocked outside opinion, because it had occurred in what had been and is still regarded as a model African state.

Mr Kaunda has himself derogated from his boast that Zambia does not recognise racialism. He has told the Asian community that, if they want to stay, they must identify themselves as Zambians "you cannot," he said, "sit on two stools at the same time." And the writing is already on the wall for the whites. On 1st May he ordered all white trade unions to disband. One by one Zambia's white opposition members are dropping their ill-fated political careers and disappearing thankfully into obscurity. Of the original 10 who once belonged to Sir Roy Welensky's United Federal Party, seven remain, but this will be their last year because the general election early in 1969 will see the end of the reserved electoral rolls. They are treated with scorn in Parliament, their motives are distrusted, their criticism ridiculed and their suggestions ignored. Last year there were 11,637 permanent emigrants, nearly all of them white, as against 5,343 immigrants, by no means nearly all of them white. The racial incidents which threatened to bring the mines to a standstill early in 1967 were brought under control, but new ones have recently been reported, and it is safe to say that few of the 60,000 whites still envisage a permanent future in Zambia.

The third key to unity in African states has been the charismatic leader, and in President Kaunda, Zambia had one whose image was outstanding. He had seen his rivals, Dr.Nkrumah, and Sir Abubaka Talewa Balefa, ejected or killed, Mr Kenyatta has grown old and is obviously failing, and he has distanced Mr Nyerere. But earlier this year photographs of his son graduating at the Royal Military College in England were captioned with the query "will he be able to take over in time?" There was a general feeling at the beginning of March that throughout the country an ill wind was blowing, and it is difficult to avoid the conclusion that Mr Kaunda's series of state visits, in the past two months, to other African states have been designed to burnish the somewhat faded image which he had begun to present in Zambia; Kenya, Tanzania, Botswana, such visits, at a time of declining prestige, can be a double-edged weapon, as Haile Selassie, Nkrumah, Ben Bella and Milton Margai all found.

Kaunda at least sought to safeguard his position while he was absent by his announcement in the last week of April of a series of measures designed to speed up Zambianisation. Expatriate firms will in future be prevented from raising capital in Zambia except under exchange-control rules, unless the businesses are run by Zambian citizens. The firms will be asked to repay outstanding loans and limited to trade in the centres of a few towns such as Lusaka and those in the Copperbelt. Road transport licences will be restricted to firms at least three-quarters Zambian, as will contracting in the building industry. All contracts for less than R1 m. given by the Public Works Department will in future be given to Zambians. Mining companies were told to give some of the sub-contracting work for road clearance and house painting also to Zambians.

More important was Kaunda's statement that "I shall ask the owners of certain firms to invite the government to join their enterprise," and that he would not allow them to refuse at least a 51% interest. Among them were the 'Times' of Zambia, now owned by Lonrho; (all newspapers will later be moved from government control to that of an independent public corporation which will be equally unlikely to allow the expression of opposition views). Twenty-five moderately large companies also include Central African Road Services, Northern Breweries, O.K. Bazaars, Crittall-Hope, Smith & Youngson and Rothmans of Pall Mall. More serious has been the requirement that in future not more than 50% of profits should be remitted, or up to 30% of equity capital if this does not exceed the 50%. The regulation applies to banks, insurance companies, and oil companies, but is aimed mainly at the copper companies which have been accused of repatriating over 80% of their profits. A spokesman for Anglo-American said that "the royalty position could hardly get worse," and copperbelt shares have become that much more of a gamble. A good deal of enthusiasm was raised among Zambians, but it is difficult to see how the measures wull produce much improvement in either the short or the long run, particularly so far as employment is concerned.

Conclusion

I fear that things are now likely to get very much worse. The UN sanctions resolution will give the Zambian government its biggest headache yet; 80% of its external trade would be affected unless Zambia becomes itself the first country obviously to break mandatory economic sanctions. It is difficult to believe that the [redacted] British government have not sacrificed the interests of Zambia, once more to considerations of their own prestige and their own need to rally the left wing supporters who have been deserting them in their millions. It has been said that Mr Kaunda must hate Mr Ian Smith and Mr Wilson about equally; the balance must now be inclining rather heavily against Mr Wilson. I am inclined to go further than I have done in the past when I suggested that Mr Kaunda's difficulties might be found to prove more serious than Mr Smith's; I think it is probable rather than possible that he may disappear from the Zambian scene before there is any change of regime in Rhodesia.

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Members may be interested to read the attached extract from the statement by the Chairman of the Anglo American Corporation of South Africa Limited (Zambia) on the 7th June, 1968, which is reproduced by kind permission of the Corporation.

EXTRACT FROM CHAIRMAN'S STATEMENT, ANGLO AMERICAN CORPORATION OF SOUTH AFRICA LIMITED (ZAMBIA) 7th JUNE, 1968

The copper market has been extremely disturbed, mainly as a result of a major strike in the United States. There have been wide fluctuations in price and in February of this year three months copper reached £694 a ton, with cash copper £121 a ton above this figure. Since then prices have fallen sharply and as I write the three months copper price is £433 a ton. Such price instability must adversely affect the long-term interests of the industry. In Zambia the mines have had to face transport and fuel difficulties, but on the other hand the year was on the whole free from industrial unrest, and the programme of Zambianisation went ahead smoothly with the co-operation of our expatriate employees.

Arrangements are far advanced in terms of which Mitsubishi Shoji Kaisha Limited and Mitsui and Company Limited will make loans totalling $42 million (United States) repayable over seven years to Nchanga Consolidated Copper Mines Limited for the purpose of financing its large capital expenditure programme. These loans are linked with increased sales of copper to the Japanese companies.

I am pleased to be able to report that the Government of Zambia has agreed to assist the Zambia Broken Hill Development Company Limited by remitting or deferring royalty payments under certain circumstances over the next four years. Without this assistance, for which we are very grateful, the mine might well have been forced to close down.

I had hoped to be able to say something of our plans for new mining development including the use of the Torco process. Now, however, our financial plans will have to be re-assessed in the light of President Kaunda's recent speech on economic policy at Mulungushi, from which it is plain that a complete re-modelling of the Zambian economy is proposed. It is apparently intended, among other things, first that a controlling interest in a substantial number of important businesses other than mines should be acquired by the Government; secondly that in any year companies should not be allowed to pay by way of dividends outside the country more than 50% of their profits or 30% of their capital, whichever is the less; thirdly that the system of royalties and taxation applicable to the mining companies should be re-cast in a manner which has not yet been made public but which would not reduce the Government's receipts from this source; fourthly that borrowing by foreign-owned companies in Zambia should be strictly controlled; and fifthly that in future foreign investment may be protected by certain Government guarantees.

The President in his speech expressed disappointment that the mining industry had not grown more rapidly since the time of independence and he reproached the mining companies for having distributed 80% of their profits each year in dividends. The mining companies have always prided themselves on conducting their affairs with a high sense of the public interest and I feel it right therefore to comment briefly on the dividend policy they have followed in recent years. Of the gross mining profits of the companies of our Group since independence, no less than 64.8% has been paid to the Government by way of royalties and taxation. Last year, when the incidence of the export tax was for the first time felt in full, the Government's proportion of gross mining profits actually amounted to 69.1%. Perhaps in these circumstances the companies might have been forgiven if, having made a direct contribution of this magnitude to the Government they had, in fact, distributed to their share-holders 80% of what remained to them, but this by no means represents the full facts of the case. It has been our practice to charge to working costs each year the capital expenditure required to maintain production at established levels. In fact, massive investment has been required in recent years to make it possible to sustain the established rate of production from greater depths and lower-grade ores. We are concerned here not just with maintenance expenditure but with the financing of huge projects for the purpose of opening up new orebodies and treating the production from them. Since independence the mines of our Group have invested no less than K36.4 million in this way, a sum equal to 41% of the dividends paid during the same period. In addition, the sum of K12.6 million which was retained out of net profits was all used for capital expenditure purposes in Zambia so that since independence the mining companies of our Group have applied to capital purposes profits equal to 55.3% of the amount paid out in dividends during that period. For last year alone the figures are even more striking: capital expenditure of K21.2 million, a sum equal to 83.3% of the dividends for the year was financed out of current profits.

It is also relevant to point out that dividends from Nchanga accrue to a substantial extent to Rhokana Corporation Limited, and dividends from both these companies flow largely to Zambian Anglo American Limited. Profit retentions thus take place at several levels, which in effect increases further the percentage of mining profits which are applied to re-investment in Zambia.

Insofar as there has been any avoidable limitation in the rate of new mining developments, this has been due to rapidly rising costs, to transport problems and to the difficulty of recruiting and retaining the necessary skilled labour force. These are not only the problems of the mining industry but of the economy as a whole. The shortage from which Zambia suffers is not of money but of men and materials. The desire of Zambians to play a larger part in the modern sector of their economy is understandable, and I would certainly favour a policy of partnership between private business and the Zambian State. However, the drastic programme which has now been announced obviously involves certain risks. Much will depend on how it is implemented. It is highly important not to impair the confidence of foreign investors, for Zambia cannot afford to be cut off from foreign finance and the know-how and organising ability that are linked with it. For our part, we shall continue to co-operate to the full with the Zambian Government and to play as constructive a role as we can in the effort to raise the standard of living of the people.