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Africa: Israel's dwindling influence

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COMMENTS

Monetary Crisis

Dollar Weak — Gold Strong

Under strong speculative pressure the price of gold in Zurich and London broke in the middle of May through the legendary sound barrier of 100 dollars per ounce troy. And the higher gold climbed, the further plunged the dollar. The gold boom, on the one side, and the weakness of the dollar and the monetary crisis, on the other, are clearly somehow related.

Despite its demonetisation gold is still held in high esteem. Mounting industrial demand, stagnating gold production, currency uncertainties and waves of speculation have pushed the gold price up. At first it was assumed that rich oil states and others had taken to gold as a haven for their money when they came up against the financial barriers of the hard currency countries. But there seems to be a substantive connection between the upsurge of the gold price and the so far abortive US efforts to restore confidence in the battered dollar. The flight into gold is a reflex of the Watergate affair, escalating inflation, fresh devaluation rumours and, above all, the emergence of a large balance of payments deficit in the first quarter of 1973. After covering operations speculators once more gained the upper hand. A vicious circle followed: gold purchases depressed the dollar, and the falling dollar rate pushed up the price of gold. There is a tendency in many places to look at the gold boom and dollar weakness as harbingers of another monetary crisis.

The lively buying interest for gold bars and coins at German bank counters shows that when inflation is rampant people will resort to the old remedy of hoarding gold as an investment in kind which will keep its value. All the demonetisation attempts notwithstanding, the pull of the "barbarous metal", as Keynes called it, is seen to be stronger than material facts. A gold price of \$ 130-150 an ounce has been forecast for the next few months. zz.

FRG—USSR

The Brezhnev Visit

The cardinal topic at Leonid Brezhnev's talks in Bonn were the efforts for an extension and intensification of the economic relations between the

Federal Republic of Germany and the Soviet Union. The real issue was not the enlargement of existing bilateral trade exchanges, but the discussion was in the main about the Soviet Union's concept of "economic cooperation". It is on this concept that the ten-year agreement on the development of economic, industrial and technical cooperation is based. It envisages the execution of joint projects for which the Federal Republic would provide technological know-how and loans and the Soviets labour. The Soviet party chief sees opportunities for cooperation also in the raw materials sector.

When examined coolly, the implementation of this concept, which so far exists only in rough outline, is seen to involve formidable problems. The exploitation of the Soviet raw material reserves will be the work of three to five decades, whereas the German firms are more interested in enterprises for the medium term. Besides, such vast projects are probably far beyond the capabilities of any partner in the Federal Republic. The establishment of international consortia would be a solution, but the Soviet preference for bilateralism is against them. Problems are also created by the current economic situation in the Federal Republic: with productive capacities for the most part used in full, there are only limited opportunities for placing additional contracts. Another point is that the Soviet Union is not willing to pay market rates of interest for the finance needed for long-term transactions. Credit creation by the State to give German exports a further boost could not be reconciled with the current stabilisation measures in the Federal Republic. ch.

Africa

Israel's Dwindling Influence

Burundi was the seventh African state to break off relations with Israel. Its step is an early response to the "Resolution on the Question of Israel" adopted at the 10th annual OAU meeting in the Ethiopian capital of Addis Ababa at the end of May. This resolution was couched in the strongest terms yet used by OAU on the subject. The countries of North Africa can look on Burundi's decision as another success for the demands which they in particular have been pressing.

Israel has already reacted to Burundi's step. The economic sub-cabinet in Jerusalem has decided

to curtail Israel's economic activities in Africa and not to encourage further investments. By the end of last year Israeli investments and financial commitments in Africa (South Africa excluded) had reached about \$ 50 mn. Israeli firms had share holdings of \$ 6.1 mn in African enterprises. The rupture with Uganda involved Israel in losses of \$ 22 mn, and in Ghana it had to write off a further \$ 1.5 mn following the debt moratorium.

By breaking off diplomatic and economic relations with Israel Burundi has followed Ghana and Uganda, among others, in switching from economic aid by Israel to reliance on Libya's head of state Gadafi. Burundi's decision is fresh evidence of the growing potency of Libya's influence in black Africa, while that of the more moderate nations of Africa is declining. The consequences for Israel are reaching beyond the economic sphere. That it has fewer "friends" will probably be reflected by the wording of future UN resolutions. bw.

Latin America

Planning Ministers in Madrid

The Planning Ministers of 16 Latin American states met in May in Madrid for a five-day conference. The problem of foreign investments and the opportunities for social and economic development in the Latin American continent were their main topics.

The former secretary general of UNCTAD, Raúl Prebisch, urged that clearly defined conditions should at last be laid down for all foreign investments in all the countries of the continent. He considers it indispensable that practicable mechanisms are evolved to counter present and future conflicts with multinational companies. In a side-note on the activities of North American combines in Latin America Prebisch appealed to Spain in particular to help to open the European markets to the states of Latin America. Lopez Rodo, who at the time was the Spanish Planning Minister and is now Foreign Minister, made another notable contribution to the conference by proposing a Magna Charta for the future economic and social development of the countries of Latin America.

It is interesting that at the same time the new Argentine President, Hector Cámpora, declared in Buenos Aires that while under his government no discriminatory measures against foreign investment need be expected, legal norms would be laid down to relate the employment of foreign capital directly to its benefit for the Argentine.

If ideas like those expounded by Cámpora and at the Madrid conference develop into a more or less uniform and consistent attitude by all Latin American states, they may, on the one hand, give a fresh impetus to the deadlocked integration efforts in South America and, on the other, clarify the situation for development policy. iwe.

FRG—China

The Ice-Breakers

A few days after Brezhnev's visit to Bonn and his meeting with German industrialists a prominent managers' delegation went to Peking. Berthold Beitz, who at China's request was leading the delegation, and the delegation members had frank and businesslike talks with China's leading men who give politics usually priority over economic matters.

The purpose of the visit was essentially to gather information and make the acquaintance of the men on the other side. Chou En-lai gave a survey of the Chinese economy and incidentally showed himself to be extremely well informed. He laid stress on the opportunities for cooperation with German industry on a basis of independence, equality and mutual advantage. Besides, the members of the German delegation were able to see on the spot what has been achieved in China and what still remains to be done. They found Chinese industry to be at present at approximately the stage reached by the Soviet economy in the late sixties. It can supply the country with robust standard-type machines, but the jump to the next stage of technical-industrial development is still a matter for the future.

China today accounts for no more than 7.5 p.c. of Germany's eastern trade, but the prospects are good, despite strong competition by Japan and the USA, because China is wary of one-sided dependence. Moreover, the Chinese have given up paying on the dot for all foreign goods as a matter of principle. They will now pay 20-30 p.c. of a purchase price in cash and dispose of the remainder by instalments over up to five years at 6 p.c. interest. They have not made any spectacular cooperation offers à la Brezhnev but there are good prospects for German industry because the Chinese have found out that to set up the planned plants in time international cooperation is indispensable. The talks do not seem to have yielded much in the way of concrete results, but after all they were not meant to do that. The delegation was, in Berthold Beitz' words, an ice-breaker. It has cleared a channel: German firms can now make faster progress. hg.