



Bankers & South Africa: the deadly choice

A combination of events has brought a new mood of hope - even euphoria - to white South Africans.

The gold price has shot up, helping to bring up the currency with it; the bankers' broker, Fritz Leutwiler, is more optimistic of finding a political solution which will enable the banks to resume lending; a new military government in Lesotho, the mountain kingdom in the middle of South Africa, has promised to eject refugees from the African National Congress; and many whites now see Chief Buthelezi as the key to a peaceful agreement with the blacks.

How significant are these changes after the gloom of the last few months?

LEUTWILER'S DILEMMA

The bankers remain central to the economic future. The 29 chief creditor banks are anxiously watching the position of Fritz Leutwiler, who is trying to reach an agreement between them and Pretoria over their repayments, before the next meeting with him in London in three weeks' time, on February 20.

They can't make out where he stands; though far from maintaining a banker's discretion, he has been sounding off politically - in opposite directions.

Last November he was publicly complaining that Pretoria's repressive policies were 'the very opposite of what I hoped for' and insisting on major political changes - which was in line with the public views of American bankers, led by Chase and Citibank - worried by boycotts by shareholders and depositors.

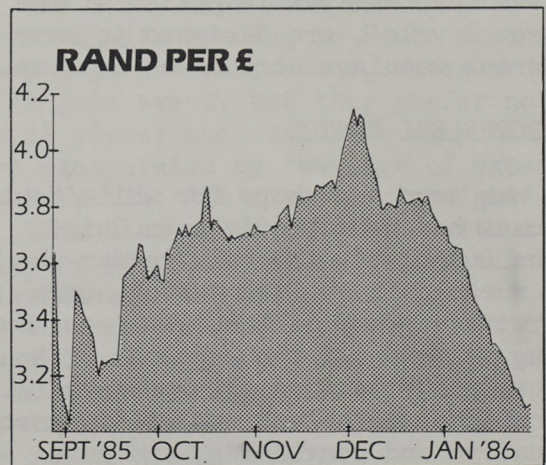
Then two weeks ago, after seeing President Botha and twenty selected South Africans, Leutwiler left South Africa apparently confident that the new political reforms would produce an agreement with all creditor banks.

He also explained that he had no

intention of talking to the militant black opposition, the African National Congress; and that the businessmen who talked to them in Lusaka six months ago now regretted it: 'These gentlemen had not expected the ANC representatives in exile to openly admit getting arms free from the Soviet Union'.

But the ANC has never concealed getting arms from the Soviet Union, and the two businessmen who led the visit - Gavin Relly of Anglo-American and Tony Bloom of the Premier Group - were very well-informed about the ANC. 'The talks were not a mistake,' Bloom said last week, 'and the door remains open for future meetings'.

What has turned Leutwiler? Clearly



THIS LETTER is keeping a continuing close watch on the South Africa, where the partial recovery of the Rand over four months revived some white hopes. But western bankers and businessmen still face unavoidable choices about who they should back for the future (p.1-3).

It also looks at the problems of Latin American democracies in the light of their debts and the falling oil-price, as seen through the conference of the IDB (p.6-8).

ANTHONY SAMPSON

President Botha convinced him privately of more fundamental changes in hand; and Pretoria has been fostering hopes of his speech to parliament.

Many South African businessmen believe that at last Pretoria is listening to their complaints that apartheid is bad for business. The Federated Chamber of Industries has just produced a radical document which insists on 'the removal of statutory racial discrimination from all the affairs of state..' and on 'genuine political power-sharing by all South Africans'. And Pretoria has not opposed the document.

The new language from Pretoria, including briefings sent to some diplomats abroad, sounds decisive and unambiguous. It promises an end to influx control and of most social segregation, common citizenship and negotiations with genuine representatives of the blacks - chosen by themselves. It promises participation in government at the highest levels.

But Pretoria has not promised a change in the Population Registration Act or the Group Areas Act which enforce the fundamental racial divisions and forbid anyone with the wrong pigmentation from living in a white area. And phrases such as 'participation at the highest levels', are designed to have different meanings abroad and at home.

THE BUTHELEZI FACTOR

A new source of hope for white South Africans has undoubtedly been Chief Gatsha Buthelezi, the Zulu leader who last week again visited London, this time with a group of Natal businessmen trying to fend off the boycotts of South African goods in foreign supermarkets.

In London Buthelezi was at his most persuasive and convincing, and gave eloquent evidence to the Foreign Affairs Committee of the House of Commons (heavily reported in South Africa, not at all in Britain).

In Pretoria, Botha is now determined to go ahead with the 'Natal experiment' in which whites in Natal (mostly English-speaking) would share provincial power with the blacks (mostly Zulus). Natal businessmen see Buthelezi as their great black hope - all the more since the killing of children by land-mines and bombs, which are blamed on the ANC. Many whites outside Natal agree too: the Financial Mail in Johannesburg has named him their 'Man of the Year'. He is being spoken of as the first black cabinet

minister, even prime minister under a white president - like Bishop Muzerewa in Rhodesia before independence...

And that of course is the warning. Can blacks outside Zulu areas - and even younger Zulus - accept a leader who, however critical of apartheid, is the protege of the apartheid government which pays for his staff, travel and private police? Can he compete with the ANC which insists on universal suffrage with no ethnic divisions?

UNFURLING THE ANC FLAGS

The fact is that the ANC, however much fury it incurs from the whites, has become more popular with the blacks with each stage of the crisis. By banning it and keeping its leaders in jail the government has enormously increased its support.

'Mandela is of more use to the ANC inside prison than outside', President Botha admitted recently. 'Then why keep him in jail?' asked Helen Suzman. Botha is still desperately trying to negotiate a way to release him.

In his speech on January 8, Oliver Tambo, the President of the ANC, could claim 'we have virtually lifted the ban on our vanguard movement, the ANC. We did not ask for the permission of the enemy to unfurl and raise the people's flag...'

And in spite of its links with the East, the ANC has also significantly begun to open itself up to the West. In his speech Tambo referred to 'the inspiring upsurge of the solidarity movement in the United States' and to support from Britain and Scandinavia; and he said that 'the refusal of the banks to roll over their loans to South Africa is an important victory in our struggle...' It marked an odd, but interesting new alliance, between bankers and revolutionaries.

The two black leaders, Buthelezi and Tambo, now present more clearly two opposite futures. There are occasional hints of compromise, and two weeks ago Mandela wrote a friendly letter to Buthelezi. But the policies remain very divergent, and offer a difficult choice for white politicians and businessmen.

The Buthelezi route with its promise of non-violence and peaceful change, looks thoroughly tempting. But it is a misleading promise; for Buthelezi's own Zulu impis are often undoubtedly violent; and the prospect of tribal battles

between Zulus and Xhosas (or between Zulus and Pondos, which killed thirty last week) could be the deadliest of all: while for many urbanised blacks on the Reef the ethnic divisions would seem almost as irrelevant as the divisions between Welsh and Scots in London.

And it is hard to imagine any secure settlement in South Africa which does not include the ANC - which from its foundation in 1912 has mixed up the black tribes.

Pretoria now claims that the ANC has passed its peak, and that the new government in Lesotho - run by generals and backed by Pretoria - will make it much harder for the ANC to operate. There is no doubt that Botha - and perhaps Mrs Thatcher - hopes to turn the ANC into a kind of PLO, an outlaw everywhere.

But the ANC has a far wider and more conservative base than the PLO. There is powerful evidence for its following within South Africa; and the longer Mandela stays in jail - where he cannot put a foot wrong - the more unified is his support.

EMINENT (BUT WORRIED) PERSONS

In the midst of this crisis the 'eminent persons' of the Commonwealth, headed by Malcom Fraser and General Obasanjo from Nigeria, face an awkward - perhaps impossible - task in trying to open a dialogue with South Africa when they go out there next month.

They have received emphatic assurances from Pretoria that they will be allowed to see anybody they want - but not specifically Mandela (or the other political prisoners in jail, who Mandela insists must be released with him).

They are determined not to be caught in a trap, like the European foreign ministers last August: of visiting South Africa and President Botha and then finding they could not see Mandela. They see an obvious danger that President Botha (and perhaps Mrs Thatcher) want simply to use this group to delay and muddle their tactics, like the western 'contact group' with Namibia.

THE BANKERS' SETTLEMENT

In the meantime, the bankers and businessmen now appear to have an opportunity of wielding more influence than eminent persons or diplomats - whether by being able to talk to all sides or by pressing Pretoria to genuinely dismantle

apartheid.

It is this opportunity which makes Leutwiler's position so important - and so baffling at present.

There are fierce divisions between the 29 creditor banks that will meet in February. Most Europeans - particularly the Swiss - are still furious with the American banks for their 'emotional behaviour'.

'It's really the opposite situation from the Latin American countries, where the Europeans have less exposure than the Americans, and are asking for political changes, with no rescheduling', said a German banker, 'In South Africa, the Americans can afford to insist on political changes: it's a long way away and they are less exposed.'

And all the other banks are furious with Chase Manhattan, which so suddenly pulled the plug last July when it stopped lending to South Africa, and got its money out at the expense of other banks.

Chase on their side are angry at Leutwiler's indiscretions, and say that they will not attend the next meeting (largely no doubt because they dread losing more of their accounts and deposits in New York).

The Swiss have been making good profits with lending to South Africa at very high interest-rates, safeguarded with gold swaps. But they prefer not to go it alone; and meanwhile many bankers are exasperated by the lack of expertise in Pretoria: 'It's amateur's night'.

This kind of negotiation, with its mixture of political and technical complexities in several countries, is one of the most crucial and difficult tasks in all banking; and both de Kock, the gentle and academic central banker in Pretoria, and Leutwiler himself, seem to be out of their depth.

Moreover in spite of Leutwiler's new optimism, there is great doubt as to whether he has really got his message through to the centres of political power in Pretoria - not just to President Botha, but to General Magnus Malan, the minister of defence, who is a kind of shadow-president, with an effective veto on real political reforms.

And in the meantime a small group of super-bankers and industrialists are much more worried about the long-term problem, of safeguarding the future of free enterprise in Southern Africa, and who are genuinely trying to make bridges between western capitalism and radical blacks to achieve that result.

People and pointers

LONDON'S NEW PRESS

The British press which has been deadlocked for so long is now in a double upheaval. It is not just the belated technical revolution, led by the Times which has just begun computerised printing - soon to be followed by the new paper Today, owned by Eddie Shah, which will be published in early March in full colour (looking rather like its American namesake USA Today).

More interesting are editorial changes in three influential newspapers which will shift their political balance. The Canadian entrepreneur, Conrad Black, who now controls the Daily Telegraph has brought in Andrew Knight, the New Zealander who was formerly editor of The Economist, as chief executive.

Knight is determined to rapidly enliven the Telegraph, both intellectually and technically, to compete with the Times - which has been moving downmarket and whose new editor, Charles Wilson, is a tough Glasgow professional with no intellectual claims. The Telegraph - with its very conservative following and style - now hopes to capture refugees from the Times who are upset by its jazzy style; and it may well succeed.

In the meantime the new editor of The Economist, Rupert Pennant-Rea, is less right-wing than his predecessor, and much more interested in the developing world (he has edited recent issues of the World Bank's World Development Report).

Pennant-Rea also wants to break the glibness of The Economist's mid-Atlantic style, and bring in more intellectual power. With its international readership and its special mystique in America, The Economist is potentially the most influential British paper of all.

THE SATELLITE PRESS

In fact the influence of the national British papers, particularly in financial and economic affairs, is being increasingly challenged by the expanding contest between the global newspapers - the International Herald Tribune, the Wall Street Journal and the Financial

Times (which now also prints in the US).

The European edition of the Journal is planning to print in London as well as Amsterdam, while the Trib is hoping soon to print in the Middle East. None of the trio is seriously damaging the others in this growing global marketplace, while the purely national press is becoming increasingly worried by these off-shore competitors.

Just when Britain is catching up with the 'new technology' of computerised setting, which was introduced elsewhere two decades ago, the newer technology of printing by satellite across the world is changing the whole context of information and influence round the world.

THE NEXT WORLD BANKER

Bankers and governments are looking to the World Bank to take a broader role in co-financing, while the Bank's soft-loan arm, IDA, is coming up again for replenishment.

But in the meantime its president Tom Clausen is looking more like a lame duck, and there is an increasingly controversial list of possible successors - two of whom were in London last week for the conference on Latin American debt.

One of them is Tim McNamar, formerly of the US Treasury, who would certainly be welcome to the White House, but who meets with less enthusiasm in Europe. The other is Bill Middendorf, the banker and broker who became Ambassador to Holland, and then to the Organisation of American States. He has composed seven symphonies and an opera, but there are doubts about his economic qualifications.

Another emerging candidate has much more specific political support: Bill Simon, the former Treasury Secretary under Nixon who then wrote the best-seller A Time for Truth championing the free market-place. Simon would aim to use the World Bank to spread his gospel through the developing world, cutting back public spending and encouraging supply-side economics and direct investment. But he would provoke a fiercer storm of criticism among Europeans. The US administration remains deter-

mined to have its own candidate in the World Bank - though James Baker is showing himself much less doctrinaire than his predecessor. But as the American share of financing the World Bank diminishes, the other members are becoming increasingly restive.

BOYCOTTING THE SKIES

The Mayor of Atlanta, Andrew Young, was in London last week on his way back from Africa, where he had been travelling on business with his former President Jimmy Carter - under whom he served as Ambassador to the UN and trouble-shooter for Southern Africa.

Young remains an activist on behalf of black South Africans, and he insists that there will be no change in apartheid without pressure. 'It was the same in the civil rights campaign - businessmen did not change until there was pressure from federal contracts.'

For the last five years he has argued for a boycott of airlines to South Africa which he thinks is one of the few boycotts which can hurt the economy without seriously hurting the blacks. He was struck by the way an airlines' boycott against Libya successfully stopped Libya allowing hi-jacked planes to land at her airports.

Could an air boycott ever be agreed by all airlines - including the insistently neutral Swissair? Young has been talking (he told me) to other American mayors, in the cities with key gateway airports, and believes that acting together they can refuse landing rights to any airline like Swissair which breaks the South African boycott.

The South Africans, he says, could paint their planes different colours and fly them out of neighbouring countries; but the inconvenience of long journeys to distant airports would be expensive and exasperating to South African businessmen, and would (he thinks) very soon press home South African isolation.

WESTLAND V WATERGATE

The extraordinary Westland helicopter crisis which nearly brought down the Thatcher government last week, has ob-

vious resemblances with Watergate thirteen years ago: the same relatively minor first mistake, magnified by the cover-up.

There certainly remains, as with Watergate, a question about the original motive: why did Thatcher and her ex-minister for trade, Leon Brittan, go to so much trouble to push the merger between Westland and the American Sikorsky company, while publicly insisting that it was purely a commercial choice?

I still believe that the ex-minister of defence Michael Heseltine (in spite of his letter below) was emotionally opposed to the American link. Was there (some Tories are asking) some unrevealed quid-pro-quo between London and Washington, which was agreed at Thatcher's meeting with Reagan last October?

But there were also obvious contrasts between Westland and Watergate, including the quite different role of the officials. In Washington the White House team, including Haldeman and Ehrlichman, were public figures who could (and did) argue back very publicly; while in London Mrs Thatcher's officials were professional civil servants who could not reply and unfairly became scape-goats.

There was also an obvious political contrast (as Ted Heath observed). Nixon was at least plotting against the opposition. Thatcher was fighting her own party colleagues.

HESELTINE AND AMERICA

In response to the last issue in which I discussed the dispute over Westland I have received the following letter:

Dear Anthony Sampson,

I thought I should point out at once that it is ludicrous to believe I am anti-American. There is no foundation whatsoever for such a view. Indeed, few politicians have spoken up so publicly for America and its NATO relationship as I have done over the past three years.

Yours sincerely,

Michael Heseltine

Debts & democracy in Latin America 1: the oil crisis

Last week the Inter-American Development Bank celebrated its twenty-fifth anniversary with a conference in London (of which I was co-chairman) on 'Beyond the Debt Crisis'.

Several warnings recurred from the Latin speakers. Perhaps the most insistent was the need for the richer countries to commit themselves to ensure enough growth to safeguard the new democracies of Latin America. In the words of the IDB's President, Antonio Ortiz Mena:

The potentially devastating impact of extended austerity programmes on democratic governments, particularly the newly elected, has received all too little attention in the industrialised countries. Your press and other media, consistently the bulwark of freedom, seem to take for granted the durability of democratic advances in our part of the world.

Most Latin American speakers, while welcoming the Baker plan, believed that it did not go far enough in providing the mechanism to increase growth, and to reverse the outflow of funds.

NARCOTICS AND CAPITAL FLIGHT

The speeches were more candid than they would have been two years ago, whether about domestic mismanagement or about the extent to which borrowing had been wasted - particularly by the flight of capital most of which would never be repatriated.

Many speakers referred to the difficulties of preventing this outflow, particularly from countries with high

inflation and above all from Mexico with its long frontier with the United States.

There was even reference to the forbidden subject of the narcotics trade, which plays such a sinister part in the economies of Colombia, Peru and Ecuador and which has devastated Bolivia.

Manuel Ulloa Elias, the former prime minister of Peru, warned that the vast American market for cocaine - now estimated at over \$100 billion a year - was perpetuating a huge vested interest of dealers rich enough to corrupt parliaments, judiciaries and state controls.

The American and European bankers, on their side, gave varying pictures of the prospects. William Rhodes of Citibank, the chairman of the restructuring committee, gave a markedly optimistic picture of most debtors except Mexico.

Werner Blessing, a managing director of the Deutsche Bank, gave a sterner warning to the Latins, stressing the need for firmer domestic policies and control over inflation, and arguing that it was misleading to regard interest repayments as part of a net outflow of capital.

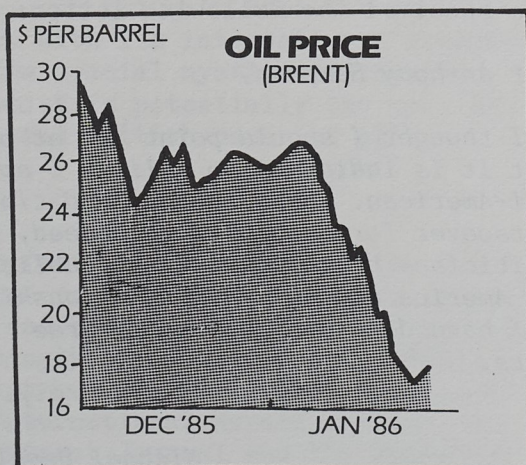
David Rockefeller, the chairman of the Chase Manhattan's international advisory committee, stressed the mistakes made by the Economic Commission for Latin America in encouraging protected interests since 1950 - which he partly blamed for the decline of Latin American economies compared to Europe and Asia - and he insisted that greater export-orientation can lead to higher growth.

Fresh from his visit to Buenos Aires, he complained only mildly about the left-wing demonstrations against him. 'According to this group, I was responsible for the IMF, the creation of the Austral plan, and the destruction of the country - quite a tall order for a retired banker.'

THE NEW MEXICO CRISIS

But nearly all Latin speakers emphasised the continuing vulnerability of all debtors to external factors, particularly to the falling prices of commodities, and specially of oil. The spectre of cheap oil overhung the Latin producers, Venezuela, Peru and most of all Mexico.

Few experts believed that Mexico



could survive the next few months with a lower oil-price on top of all its other problems. And the finance minister Silva Herzog talked with much more menace than usual:

We are going through an emergency, a very real one which, if not acted upon with speed and wisdom, could make the summer of 1982 look like a relatively calm and quiet period.

Events can overtake us very easily. In the case of Mexico, the general situation described for Latin America is exacerbated by the recent drastic drop in oil prices which could easily add up to \$2.5 to \$3 billion in loss of export income.

Other Latin Americans reckoned privately that Mexico was on the edge of a political convulsion; and that the ruling party, the PRI, could no longer contain the resentment and anger that have followed the cutbacks.

With any further drop in the oil-price Mexico seems almost certain to involve the United States in a further rescue. The eventual marriage of the US and Mexico, however reluctant both the partners, seems now more likely than ever.

Who pushed up gold?

There is still much speculation about the cause of the sudden increase in the gold-price, from \$340 to \$380 two weeks ago. It remains a puzzling phenomenon, at a time when the falling oil-price, high interest-rates and low inflation all suggest the opposite trend.

None of the dramatic explanations - whether about Libyan demand, the Saudi panic, the market for gold coins for the Japanese Emperor's birthday, or for new coins in Canada and the US - explain such a sudden surge. And naturally many people look for an explanation in South Africa itself, which produces 60% of the world's gold and is the biggest beneficiary of the increase.

Certainly gold is playing a discreet role in relations between South Africa and the Swiss banks - particularly the Credit Suisse and the Swiss Banking Corporation - which have been taking large gold-swaps, providing security against loans. But these are unlikely to have affected the market, or to have accounted for a sudden jump in one week.

The jump had its origins in December, with a large and still unexplained increase in the physical demand for gold - which then produced a sudden squeeze on the market the following month.

In fact there has been no sign of South Africa having manipulated the gold-price since 1980, when it held back gold-sales on a rising market. Since then the South Africans have normally had to sell all their new production.

It seems clear that a set of external coincidences combined to provide the sudden improvement in South Africa's position. As this year they celebrate the centenary of their gold-fields, Johannesburgers are reminded that they still depend on the whims of this unpredictable metal.

Islam and Sultan Qaboos

An outspoken new pamphlet, published by the Islamic Council in London, provides a new investigation into that controversial ruler, the Sultan of Oman.

The main Islamic complaint against Sultan Qaboos is not surprising: that he is the only Arab ruler in the Gulf to have endorsed the Camp David agreement between Israel and Egypt.

But the study also complains that Oman has a 'Lilliputian army with inappropriate equipment': last year it spent \$2 billion on defence forces of only 25,000 people - compared to Pakistan which spent \$1.8 billion for forces of 647,000.

It also provides a review of previous charges against the Sultan: for instance, that many of his advisers are CIA men; and that Mrs Thatcher helped to get the contract to build the Sultan Qaboos University for the British company Cementation to which her son Mark was consultant.

But it denies that Mrs Thatcher herself played a significant role in that deal: 'Qaboos calculated that by awarding this lucrative contract to a British company which had the British prime minister's son as its consultant, he would enter the good books of the British and ensure their continued help and support at home and abroad'.

The pamphlet promises to be one of a series 'to expose and publicise the insufferable malpractices of the guilty regimes'. It ends with the ominous trailer: 'Next, King Fahad, the Big Boss of the Gulf, King of.....'

Debts and democracy 2: who makes the decisions?

How far can the Baker Plan begin to resolve the political problems of Latin America? I have received this report from a well-placed authority who writes under the name of George Manos.

Dear Anthony,

In Latin America there now exist governments that from an American point of view are as good as are likely to exist. Argentina, Mexico, Brazil, Peru, Bolivia, Ecuador, Colombia, Venezuela, Guatemala, El Salvador, Honduras, Costa Rica and the Dominican Republic have governments that have been freely elected.

They are moderate in political outlook and committed to a mixed economy, although more tolerant of state enterprise and government intervention than the US. None is strongly committed to social reforms, except possibly Peru and Nicaragua.

In Brazil, after an initial attempt at aggressive agrarian reform, the traditional landed interest forced the Government to back off. This indicates the general mood in Latin America: avoiding confrontation issues and relying on growth to ameliorate social tensions.

These governments respond to a strongly nationalist middle class and entrepreneurs who fear competition from multinationals and a too rapid liberalization of the economy. Historically, multinationals are more acceptable in a rapidly growing economy. As growth accelerates governments can be expected to reduce the public sector and allow more imports. Where they want to reduce military influence, as Argentina does with Fabricaciones Militares, they may rein in the public sector more boldly.

Most Latin American societies have an overhanging shadow: the social question, which has been at the center of every modern revolution; and poverty which (to quote Hannah Arendt), is 'a state of constant and acute misery whose ignominy consists in its dehumanizing force'.

The vast numbers of Latin Americans who exist in this condition constitute a constant threat to the middle class governments in the Southern Hemisphere,

which realise that if that largely inert mass is ever activated as a political force it will sweep all before it.

This fear drove the middle class in Brazil in 1964, and in Chile in 1973, into an alliance with the military. The Sandinistas survive, under intense US pressure, because they have made the centerpiece of their revolution the lowly of society: they have 'put down the mighty from their seats and exalted them of low degree'.

How the social question is dealt with in Latin America frames the development issue for the next generation. For the moment, we have an opportunity to support moderate Governments who will seek to solve it within representative political institutions and mixed economy capitalism.

In this context, the issues which the US Administration has put center stage - privatization and liberalization - are secondary. Indeed, by emphasising these issues and the case-by-case approach of the IMF and World Bank, the US is sponsoring intervention on the most highly charged question for any society - the shape of its own political economy. The middle class and entrepreneurs will perceive it as an intolerable foreign intrusion in their decisions.

George Kennan wrote of the Marshall Plan: 'The request for our support must come as a joint request from a friendly group of nations, not as a series of isolated and individual appeals'.

Had that not been insisted upon, he noted, 'the United States would have been confronted with a wide series of competing national demands, all padded and exaggerated for competitive purposes... This would have forced us to make choices bound to be politically unpopular in many quarters'.

But this is what is wrong with the Baker Initiative: it takes on to the shoulders of the US the decisions that properly belong to the national authorities in the Latin American countries. The conventional framework has reached a dead end. We need a radical new departure.

Yours sincerely,

George Manos