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DIRECTORATE OF
INTELLIGENCE

Intelligence Memorandum

Rhodesia: Economic Progress Despite Sanctions

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CENTRAL INTELLIGENCE AGENCY
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INTELLIGENCE MEMORANDUM

RHODESIA: ECONOMIC PROGRESS DESPITE SANCTIONS

Summary

1. Rhodesia has enjoyed considerable economic success since 1965 in spite of sanctions imposed under British and UN aegis. Manufacturing has benefited from an import replacement boom, notably in consumer manufactures and building materials. The mining industry, led by nickel, has expanded to partly offset the loss of foreign exchange earnings from tobacco and sugar. And important leaks in the international controls over Rhodesia's foreign trade have given Salisbury considerable room for maneuver. During 1968-72, real economic growth is expected to average more than 7% annually.

2. Prospects are for somewhat slower economic growth beyond 1972. A continuing lack of foreign development capital, transport bottlenecks, and the probable inadequacy of export growth to finance rising requirements for imported machinery and equipment will hold down growth rates. Even if sanctions were shortly to be removed, Rhodesia would need several years to regain lost markets and to build up those imports needed for long-term economic development.

Introduction

3. In response to Rhodesia's Unilateral Declaration of Independence (UDI) in late 1965, the United Kingdom imposed economic sanctions aimed at forcing Rhodesia's resubmission to British rule. These sanctions were later broadened under UN sponsorship in 1966 and 1968 to include practically all foreign trade, capital flows, and other economic ties with the outside world. Meetings between British and white Rhodesian representatives in 1966, 1968, and 1971 failed to resolve the dispute. This memorandum

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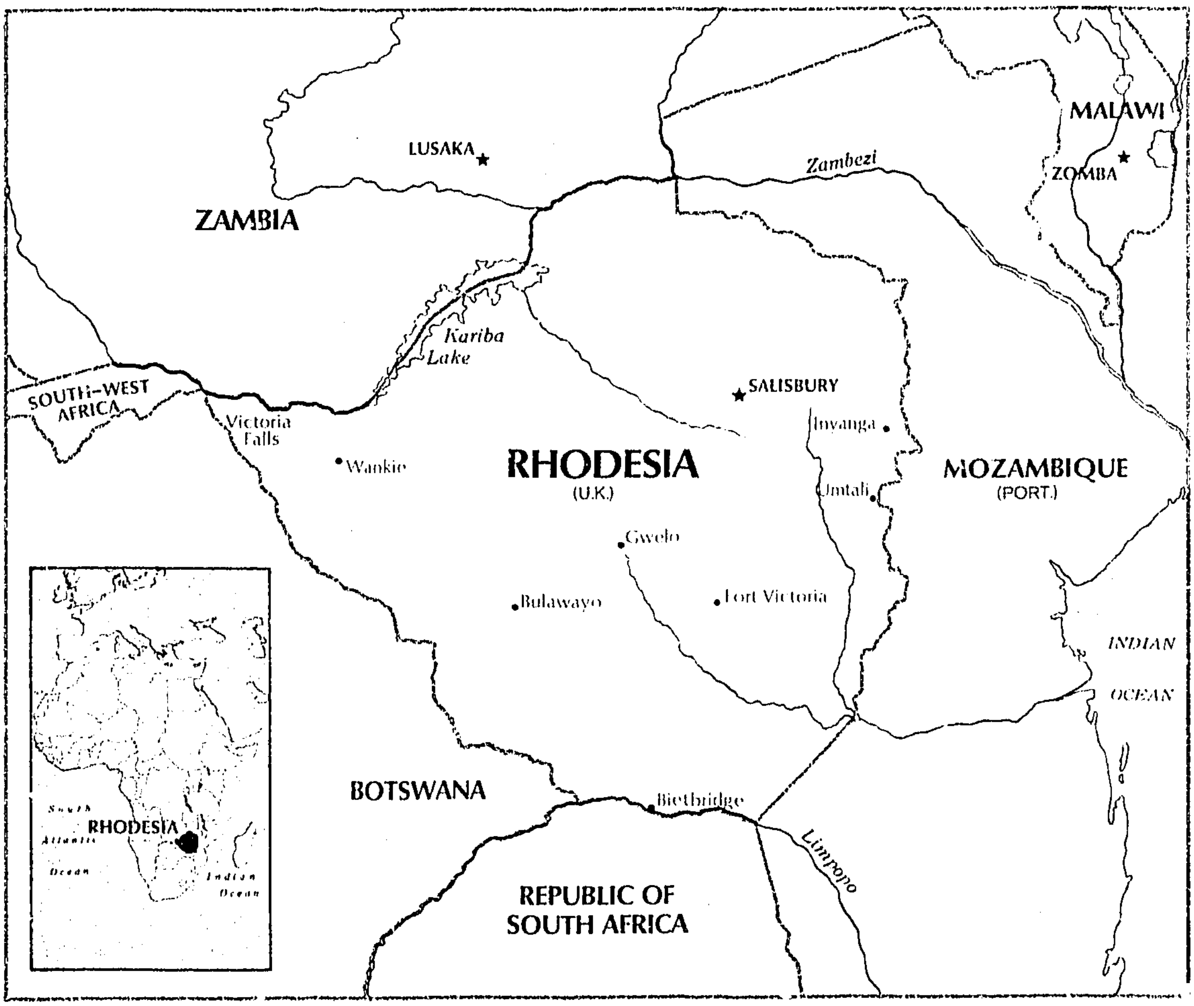
reviews Rhodesia's economic experience during seven years of sanctions and assesses the prospects for growth over the next several years.



Discussion

The Economy Before UDI

4. Although Rhodesia became a self-governing colony of the United Kingdom in 1923, significant economic development occurred only after World War II. Spurred by greatly expanded tobacco production and sales – principally to the preferential British market – and by accelerated European immigration and large capital inflows, the Rhodesian economy grew at an average annual rate of about 12% during 1944-60. Growth was also fostered by the formation in 1953 of the Federation of Rhodesia and Nyasaland -- comprised of the British colonies of Southern Rhodesia (now Rhodesia), Northern Rhodesia (now Zambia), and Nyasaland (now Malawi) -- which expanded the market for Rhodesian manufactures. However, economic uncertainties ascribable to events leading up to the breakup of the Federation in 1963 slowed annual growth to an average of less than 4% during 1961-64. Recovery began in late 1964 and, at the time of UDI, Rhodesia was expecting a period of dynamic growth.

5. Prior to sanctions, Rhodesia's principal commercial ties were with the United Kingdom, Zambia, and South Africa. Trade with the United Kingdom prospered under Commonwealth treaty arrangements, which included a guaranteed market for part of Rhodesia's tobacco and sugar crops as well as lower tariffs, both on Rhodesian goods entering the British market and on British goods sold to Rhodesia. The United Kingdom purchased half of Rhodesia's tobacco exports and was a major buyer of other primary commodities, including beef products, sugar, and asbestos; the United Kingdom also provided almost one-third of Rhodesia's imports, including about half of the machinery and transport equipment and much of the chemicals and other manufactures imported by Rhodesia.

6. Zambia was nearly as important a market as the United Kingdom, taking more than one-fifth of Rhodesia's exports, mostly manufactured goods. The dissolution of the Federation in 1963 and Zambia's subsequent tariff on Rhodesian goods failed to dampen this trade. South Africa provided almost one-fourth of Rhodesia's imports, largely manufactures, and bought about one-tenth of its exports. The United States, principally a supplier of machinery and a purchaser of minerals, accounted for just 4% of Rhodesia's pre-UDI trade.

The Application of Sanctions

7. In retaliation to UDI, the United Kingdom attempted to force Rhodesia's recantation through a program of economic sanctions. The initial move consisted of a British-imposed embargo on trade with Rhodesia,

voluntarily supported by the United States and a few other countries. When this effort failed, Britain requested the UN Security Council to act, and in December 1966 the United Nations voted mandatory sanctions on Rhodesia's major exports and a few strategic imports. In May 1968, UN sanctions were extended to virtually all of Rhodesia's foreign trade, capital flows, and other economic ties with the outside world.

8. The effects of sanctions on Rhodesia's economy have been blunted by the failure of all but a few countries to enforce the sanctions. 25X1 [redacted] Indeed, most governments other than those of the United States, the United Kingdom, and Canada have paid mere lip service to sanctions, doing little or nothing to enforce compliance. Strong foreign demand for Rhodesia's minerals and Salisbury's willingness to cut export prices and to pay premium prices for imports have encouraged traders to operate under the guise of trading with South Africa and Mozambique. Furthermore, South Africa has ignored restrictions on capital movements, in view of Rhodesia's inviting post-UDI investment opportunities.

General Economic Trends Since UDI

9. The economy, slowed by sanctions in the early post-UDI period, has sustained an impressive growth record since 1968. Highlighted by excellent agricultural years in 1969 and 1971, real gross national product (GNP) increased at an average annual rate of more than 8% during 1969-71 (see Table 1). The substitution of domestically produced goods for foreign products caused manufacturing output to soar; average annual growth increased 13% during 1967-71 (see Figure 1). During the same period, construction activity nearly tripled because of increased commercial and residential demand. Mineral production, led by a boom in nickel output, rose 30% in 1969, but depressed metal prices slowed expansion in 1970 and 1971. Gross fixed capital investment, increasing at an average annual growth rate of 21% during 1967-70, was stimulated by the high level of activity in manufacturing and mining.

10. Government spending has played a key economic role since UDI in the maintenance of agricultural income and in the promotion of exports. Salisbury nearly doubled expenditures during the period covered by fiscal years (FYs) 1965-72,[1] to an estimated level of $470 million. Agricultural assistance – accounting for more than one-tenth of post-UDI government spending – has taken the form of subsidies, loans, drought relief, production

1. The Rhodesian fiscal year ends on 30 September of the stated year.

Table 1

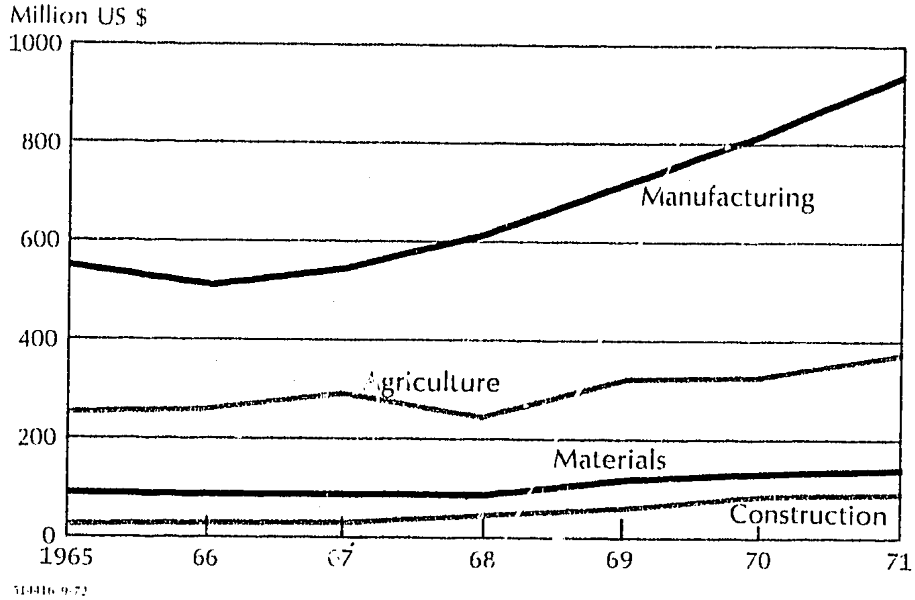
Rhodesia: Composition of Gross Domestic Product by End Use[a]

	1965	1966	1967	1968	1969	1970	1971
	Million US $						
Private consumption	686	699	764	823	878	975	N.A.
Gross fixed capital formation	133	111	143	193	216	237	N.A.
Government current expenditure	129	128	139	148	160	170	N.A.
Net increase in stocks	13	53	46	62	52	62	N.A.
Net exports of goods and services	78	23	-7	-50	35	9	N.A.
Gross domestic product (GDP) at current market prices	1,038	1,015	1,085	1,175	1,341	1,455	N.A.
Net income paid abroad	-35	-22	-16	-19	-24	-27	N.A.
Gross national product (GNP) at current market prices	1,003	993	1,069	1,156	1,317	1,428	1,628[b]
GNP at constant 1965 prices	1,003	958	1,015	1,077	1,192	1,241	1,365[b]
	Percent						
Annual changes in real GNP	--	-4.5	+5.9	+6.1	+10.7	+4.1	+10.0[b]

a. Because of rounding, components may not add to the totals shown.
b. Provisional.

Figure 1

Rhodesia: Production in Agriculture and Selected Industrial Sectors



quotas, and price supports, all designed to encourage diversification into crops previously imported.

11. The promotion of exports has taken the form of tax relief (to permit price cutting) and expenditures to build up the capacity of new export industries and related service industries. Post-UDI spending for railroads totaled about one-sixth of domestic capital expenditure through FY 1970, and this share subsequently has been increased on a priority basis to more than one-third. This domestic effort has emphasized the production of rolling stock and line improvement. Nonetheless, sanctions have prevented Rhodesia from acquiring as many new locomotives as it needs, and the capacity of the rail system is an important constraint limiting the expansion of mineral and agricultural exports, all of which are dependent on rail transport. Finally, Salisbury has encouraged a high degree of private investment in sectors earning foreign exchange, principally mining, manufacturing, and tourism.

Production

Manufacturing

12. With the rapid growth in output of import substitutes, manufacturing has displaced agriculture as the principal contributor to

domestic income, generating almost one-fourth of gross domestic product in 1971. Although stagnant in the immediate post-sanctions period, manufacturing was soon spurred by the government's imposition of controls over imports. More than 1,000 new industrial ventures (most of them quite small) have been established since UDI. During 1969-71, gross manufacturing output increased by more than 50%, to a record level of $947 million. The industrial boom was concentrated on light consumer goods (such as cigars, synthetic yarns, clothing, watches, and sporting goods) and building materials (such as concrete roofing tile and irrigation pipe). In contrast, growth in the output of capital equipment such as ore-processing machinery has been slight. During 1965-71, metal processing increased 150%, output of non-metallic mineral products nearly tripled, textile production more than doubled (largely as the result of expanded sales to South Africa), and production of clothing and footwear rose about 80%. In the first seven months of 1972, manufacturing continued to expand at the rapid 1971 pace.

Agriculture

13. Rhodesia's agricultural sector has continued to expand despite sanctions, although agricultural exports remain substantially lower than pre-UDI levels. Cotton, corn, and wheat have led the expansion in agricultural output of nearly 50% between 1965 and 1971 – to a level of $377 million in 1971.

14. Tobacco has been crippled by the loss of foreign markets. Before UDI, Rhodesia was the world's second largest producer of flue-cured tobacco, supplying about one-fourth of the world market. Since 1967, production has been maintained at less than 50% of the pre-sanctions level of 125,000 short tons per year. (For changes in the level of post-UDI production quotas, see Table 2.) Foreign sales since 1966 are down more than $100 million a year, or more than three-fourths. Salisbury has kept tobacco growers' income at a high level relative to foreign sales revenue at the cost of extensive stockpiling. Annual surpluses since sanctions have amounted to about one-third of production. Rhodesia's stock of flue-cured tobacco in 1970 was about 160,000 tons, worth an estimated $100 million at cost – equivalent to almost one-third of the value of total agricultural output for that year. Additions to the stockpile from the 1972 and 1973 crops will probably be larger than normal because production quotas were raised in anticipation of a settlement with Great Britain. Government expenditures to cover tobacco trading losses have been heavy, amounting to some $75 million – more than 5% of total expenditures – during FYs 1969-72; an additional $28 million has been budgeted to cover losses in FY 1973. Furthermore, the storage of unsold tobacco has cost Salisbury an estimated $65 million since independence.

Table 2

Rhodesia: Quotas, Production, Sales, and Stockpiles of Flue-Cured Tobacco by Crop Year[a]

Thousand Short Tons

	1967[b]	1968	1969	1970	1971	1972	1973	1974
Production quotas	100	66	66	66	66	72	73[c]	60[c]
Production[d]	93	59	60	63	N.A.	N.A.	--	--
Volume of sales[d]	40	44	39	55	N.A.	N.A.	--	--
Accumulated stockpile, at end of crop year[d]	118	133	154	162	N.A.	N.A.	--	--

a. Crop years ending 30 June of stated year.
b. Production quotas were initiated in the 1967 crop year.
c. Scheduled quotas.
d. Estimated.

15. Sugar sales to Western Europe have kept this important industry alive. The second most important export crop prior to sanctions, sugar was stockpiled after the loss of major markets in the United Kingdom, Canada, and Zambia. Since 1967 the stockpile has been largely drawn down as the result of reduced output and expanded sales, especially to Portugal.

16. With the cutbacks in tobacco and sugar, emphasis has been switched to products less vulnerable to sanctions, principally cotton, corn, wheat, and meat products. Cotton has become one of the most successful crops since independence, its output increasing more than seven-fold to an estimated 175,000 tons in the 1971 crop year. Cotton exports go primarily to South Africa. Corn production has also spurted, from 290,000 tons in 1965 to an estimated 1.3 million tons in 1971. Domestic needs are about 500,000 tons per year, leaving most of the crop available for export, largely to Japan. Almost entirely dependent on imports for wheat prior to sanctions, Rhodesia increased domestic wheat production more than twenty times from 1965 to 1971 to a level of 90,000 tons, equivalent to three-fourths of domestic consumption. Diversification away from tobacco

and sugar has also benefited cattle raising – the number of cattle increased from 1.6 million in 1965 to 2.7 million in 1971. Foreign sales of beef, to markets in Africa and Western Europe, are substantially above the pre-UDI level.

Mining

17. Mineral production was relatively stagnant for a few years after UDI, growing less than 2% annually during 1966-68. However, the decline in earnings from agricultural exports stimulated the search for new mineral resources, and much of Rhodesia's capital inflow in the late 1960s went into expansion of the mining industry. Led by increased nickel production and by buoyant world mineral prices, the value of mineral output increased about 30% in 1969. Since 1969, depressed prices have slowed expansion and forced the delay of potentially lucrative extractive operations. Mineral production was worth $142 million in 1971, almost 60% above the pre-sanctions level.

18. Since 1965, investment in nickel extraction and processing has amounted to $40 million, including $28 million by the Anglo-American Company of South Africa in the development of two mines, a smelter, and a refinery. This investment has increased Rhodesia's nickel productive capacity more than ten times since sanctions, to about 10,000 tons of metallic nickel per year. Production, exported in the late 1960s [redacted] 25X6
through South Africa as unrefined nickel matte valued at about $8 million annually, is now being shipped to a wider market as refined metal. The potential value of annual nickel exports at full-capacity production levels and at mid-1972 world prices is more than $25 million. Slackening of world nickel demand has forestalled further significant investment in extractive efforts; a $28 million expansion had been planned by South African interests.

19. Foreign demand for Rhodesia's other major mineral exports – asbestos, copper, gold, and chromite – has kept production and export volume at high levels. Prior to UDI, asbestos was the most valuable mined product. Production apparently has been reduced somewhat from the 1965 level of about $20 million. Nonetheless, one of the country's principal producers has been successful enough since UDI to begin a $35 million expansion program, financed largely from blocked profits.

20. High world copper prices in the late 1960s stimulated the further development of Rhodesia's copper industry. Capacity now is more than 50% above the pre-sanctions level. Foreign sales have generally increased since sanctions, although sales have lagged since 1969 in the face of the soft world copper market. At full production and at current world market prices, copper sales would be worth almost $30 million annually.

21. Gold production, tenth highest in the world, has been maintained at high levels since sanctions by a program of government aid to mines. Salisbury, which has bought all mined gold since 1965, has had little difficulty in finding foreign purchasers. Annual gold sales normally amount to about $18 million, but higher prices are likely to increase earnings substantially in 1972.

22. Rhodesia's chromite industry, initially hurt by sanctions, has probably returned to pre-UDI levels of production and sales. Production most likely exceeds 600,000 tons per year – worth more than $20 million at current world prices – placing Rhodesia fourth among world producers. [redacted]

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23. US purchases of Rhodesian minerals, halted in 1966 in compliance with UN sanctions, were allowed to resume with the passage of the Byrd Amendment in late 1971.(3) Importers have shown considerable interest in Rhodesian chromite, chromium alloys, and nickel. The United States traditionally was the major buyer of metallurgical grade chromite, importing $5 million of Rhodesia's $11 million worth of chromite exports in 1965. The value of Rhodesian chromite imported into the United States in seven months of 1972 was $2.7 million, more than half of the 1965 imports. Shipments of ferrochromium and ferrochromium silicon, imported into the United States from Rhodesia for the first time in 1972, were worth $1.4 million through July. Nickel purchases, another new export to the United States, were valued at $1.4 million in this period. Small quantities of asbestos fiber and beryllium ore have also been imported in 1972.

24. Rhodesian mineral producers, spared the high cost of evading sanctions, offered lower-than-market prices to US importers. Recent sales of Rhodesian chromite to the United States were at prices more than 20% below those of Soviet chromite of comparable grade, even at the reduced prices now offered by Soviet sellers.(4) Discounts of about 8% have made [redacted]

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3. Effective 1 January 1972, the United States lifted its sanctions on importing certain "strategic" materials, including all of Rhodesia's major mineral exports; all other sanctions remained in effect.

4. Since the implementation of the Byrd Amendment, prices for metallurgical grade chromite from the USSR have fallen about 18% below 1971 levels. Previously, the USSR -- the principal source of US imports of this grade of chromite -- had nearly doubled its prices after Rhodesian chromite was removed from the world market.

Rhodesian nickel popular with US buyers in the current soft world market. US importers apparently received little, if any, discount on purchases of chromium alloys.

25. Rhodesian asbestos and copper are not likely to become popular with US importers even at prices shaded below world market prices. Pre-sanctions sales of chrysotile asbestos to the United States, worth more than $2 million, represented less than 2% of total US imports of this type, and, since sanctions, Canadian producers have developed the capacity to supply all US asbestos needs. The $200,000 of Rhodesian copper sales in 1965 was a trifling part of US copper imports for that year, and current US requirements for copper imports are likely to be filled by present sources of supply, mainly Canada.

Tourism

26. In 1971, foreign earnings from tourism were probably double the 1965 level of $15 million. Almost all visitors are from neighboring countries, principally South Africa, although travelers from outside Africa are arriving in increasing numbers. Investment, mostly from private domestic sources, continues to expand hotel facilities.

Foreign Trade and Payments

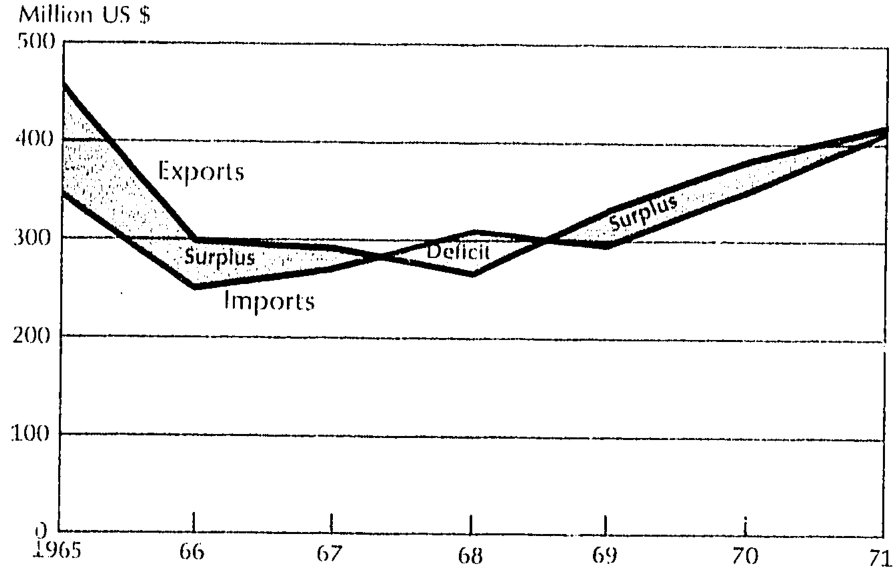
27. At first a major casualty of sanctions, exports recovered to within 9% of their pre-UDI level by the end of 1971. Exports fell more than one-third in the first year of sanctions; by 1968 they had declined about 40% below the 1965 level of $460 million (see Figure 2). Foreign sales of Rhodesia's high-quality tobacco – the principal export, accounting for almost 30% of foreign earnings in 1965 – suffered most, with sales falling from $132 million in 1965 to less than $30 million annually since 1966. Tobacco was particularly affected because of extensive links with the UK market. Lost sales have not been regained on other markets, because Rhodesian tobacco is easily identified and because consumer preferences discourage changing tobacco blends.

28. Sales of sugar, the second most important export, also dropped sharply; they now have almost recovered to the pre-UDI level. Exports of high-grade chromite also declined, falling to about 80% of pre-UDI levels, but sales have recently recovered to the old level. Other important export commodities, such as asbestos, copper, gold, and meat products, have been little affected by sanctions. The overall fall in exports bottomed out in 1968, and they have since risen to within $40 million of their 1965 level.

29. Although imports dropped sharply immediately after sanctions, they bounced back after 1966 and now are more than 20% above the

Rhodesia: Balance of Trade

Figure 2



pre-UDI level, as indicated in Table 3. A British oil embargo in late 1965 cut off supplies to Rhodesia's petroleum refinery and necessitated the import of refined petroleum products through Mozambique and South Africa. Petroleum consumption fell 24% below normal levels in 1966, after supplies were rationed by the government. Rationing was formally ended in 1971. Imports of machinery, transport equipment, and other manufactured goods, traditionally supplied largely by the United Kingdom, were sharply curtailed in the early post-UDI period. With the post-1968 expansion of foreign earnings and with the reorientation of trade patterns, however, imports recovered rapidly, increasing $120 million in 1970-71. Except for a few luxury items and some important types of capital equipment, import requirements are now being met.

30. By 1968 the net deficit on foreign payments for services, investment income, and transfers had fallen to less than half the 1965 level of $75 million. The drop stemmed from a halt in interest and dividend payments on the more than $200 million in British investments in Rhodesia and from a decrease in freight and insurance costs resulting from reduced trade. The rapid upturn in foreign investment in 1968 and the post-1968 expansion of foreign trade brought the net deficit on transfers, net foreign investment, and service payments back to a level of $62 million.

31. Net capital inflows have been unusually high since independence mainly because of sharp cutbacks in capital outflows. In response to curbs imposed by the United Kingdom and Zambia on transfers of capital to

Table 3

Rhodesia: Balance of Payments[a]

Million US $

	1965	1966	1967	1968	1969	1970	1971
Trade balance	117	49	27	-37	39	33	2
Exports	460	300	297	271	337	383	420
Imports	-343	-251	-270	-308	-298	-349	-418
Services (net)[b]	-30	-19	-28	-13	-4	-21	-28
Investment income and transfers (net)	-45	-27	-20	-21	-30	-31	-34
Net on current account	42	3	-21	-71	5	-19	-60
Net on capital account	12	-5	36	55	14	25	34
Overall balance	**54**	**-2**	**15**	**-15**	**19**	**6**	**-26**

a. Because of rounding, components may not add to the totals shown.
b. Including freight, insurance, and travel.

Rhodesia, Salisbury ceased servicing its UK debt and defaulted on its long-term obligations. These included payments on a $154 million loan from the International Bank for Reconstruction and Development (IBRD), which the United Kingdom as guarantor was forced to pay. Salisbury also clamped limitations on purchases of foreign securities by its citizens. These measures blocked practically all capital outflows, which had amounted to about $20 million annually.

32. Foreign investment since independence has been fairly large. Most investment has come from South Africa and has been the result of attractive opportunities in mining and manufacturing. Much of the investment occurred in 1968-70, when gross fixed capital formation averaged more than 60% above pre-UDI levels. However, because of its divorcement from traditional international capital markets. Rhodesia has been unable to meet post-UDI capital needs in the public sector, primarily in transportation, where the need for locomotives is particularly acute.

Consumption and Living Standards

33. Living standards for Rhodesia's whites have improved only slightly since UDI, while living standards for black Rhodesians have remained the same. Since 1965, employment of whites has increased at about the same pace as the white population, and the whites' real per capita wages have risen an average of less than 1% annually. The benefits from this increased purchasing power have been limited, however, by the drop in imported luxury goods. Rhodesia's 5 million blacks live largely in traditional subsistence patterns. Less than one in six earns wages, mainly in unskilled jobs.

34. Living standards have been suppressed because rapid population growth and inflation have largely offset rises in consumption. Rhodesia's population -- which has one of the fastest growth rates in Africa -- increased 3.4% annually from 1965 to 1971. Cost-of-living increases were at least 4% per year in this period, although the government's consumer price index indicates an annual rise of less than 3%. These factors have limited increases in real per capita GNP to 2% annually.

Prospects for the Economy

With Continued Sanctions

35. Rhodesia's post-1968 economic boom is continuing, with real growth in 1972 exceeding 5%. The rapid expansion of manufacturing shows no sign of abating. Agriculture is headed toward a favorable year and should produce substantial exportable surpluses. Earnings from mineral exports will probably rise with higher gold prices and the opening of the US market to Rhodesian minerals. Nevertheless, the overall expansion of exports almost certainly is not keeping abreast of the pressure for additional imports.

36. After 1972, economic growth is likely to be limited by balance-of-payments constraints. The growing need for machinery and parts to replace the aging pre-UDI stock will intensify pressures to import. Furthermore, because the possibilities for labor-intensive import substitution have largely been exhausted, further expansion in manufacturing and agriculture will require increasing inputs of machinery and equipment, most of which would have to be imported. Import growth, however, is likely to be constrained by the less rapid expansion of exports. Growth in exports after 1972 will be limited by difficulties in the transport sector and, probably, by continued low world market prices for key minerals. Mounting service payments will probably put added pressure on the balance of payments. With foreign exchange reserves at a low level, the effects would quickly be felt. Salisbury will have to impose stricter curbs on imports

if the demand for machinery, raw materials, and spare parts outstrips the growth in exports. In any event, the outlook is for retardation of growth after a successful period of makeshift expansion.

37. Longer term development, especially in the public sector, will likely suffer from a continuing scarcity of foreign capital. Export earnings and South African capital will continue to be insufficient to cover all of Rhodesia's needs. Furthermore, as long as sanctions are enforced, the large budget support for agriculture will limit assistance to other productive sectors such as manufacturing and mining.

Without Sanctions

38. The lifting of sanctions -- not a likely prospect in the near future -- would bring Rhodesia net long-term gains. Short-run benefits would be offset by resumption of payments on foreign debts and the transfer abroad of accumulated profits. Recovery of tobacco sales to pre-UDI levels could take several years. The United Kingdom, the major pre-sanctions buyer, is unlikely to return to its former dependence on Rhodesian tobacco, so new markets would have to be found. Long-term development, however, would be accelerated by capital from the international markets, especially for Rhodesia's mining and transport sectors.

39. If sanctions were ended, Rhodesia would return only in part to pre-UDI economic patterns. Rhodesian exports would re-enter UK markets but at less than pre-UDI levels because of changed consumer preferences and the loss of Commonwealth preferential treatment. Zambia, a major pre-sanctions purchaser of Rhodesian manufactures, most likely would continue its politically motivated ban on imports from Rhodesia. Rhodesia would probably import largely from pre-UDI suppliers, mainly in the United Kingdom and South Africa. Capital flows most likely would resume pre-independence patterns, principally with the United Kingdom and South Africa. Pre-UDI agricultural patterns would be restored in the longer run, as growers of corn, cotton, and wheat would be encouraged to return to production of the more lucrative tobacco. The eventual recovery of tobacco sales would eliminate the need for most of the agricultural assistance currently provided, permitting government spending to be shifted to more productive uses. Most of the manufacturing industries developed since UDI probably would survive, although requiring continued import controls for protection against foreign competition.