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Release 2011/10/31 : [redacted]
CIA-RDP85T00875R00160003
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CIA/OER/IM 70-172 ~~Confidential~~

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DIRECTORATE OF
INTELLIGENCE

Intelligence Memorandum

Nationalization In Zambia: Phase Three

~~Confidential~~

ER IM 70-172
November 1970

Copy No. 42

Declassified in Part - Sanitized Copy Approved for Release 2011/10/31 : CIA-RDP85T00875R001600030173-7

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CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence
November 1970

INTELLIGENCE MEMORANDUM

Nationalization In Zambia: Phase Three

Introduction

In November 1970, President Kenneth Kaunda announced the third and final step in an economic nationalization program that began in 1968. Included among the recent measures were nationalization of Zambia's commercial banks and the scheduled takeover of all foreign-owned trading operations. In essence, the moves place almost the entire economy under government control. This memorandum describes the recent reforms and assesses their impact on the economy.

Background

1. On 10 November 1970 the Zambian Government essentially completed a nationalization program begun in 1968. At that time, 25 foreign-owned companies -- excepting the copper companies -- were asked to offer the government a 51% share in their firms; restrictions were placed on profit remittances by foreign-owned companies; approval was required for certain bank loans to non-Zambians; and trade licenses for non-Zambians were to be limited to urban centers only. Most

Note: This memorandum was produced solely by CIA. It was prepared by the Office of Economic Research and was coordinated with the Office of Current Intelligence.

of these measures were designed to bring about greater Zambian Government participation in the economy. The government made a second and most significant move in January 1970 when it acquired a 51% share of the giant copper industry.

2. These reforms gave the government control of the most vital economic sectors but did little to increase and upgrade employment opportunities for Zambians. More Zambians were hired by nationalized companies, and the mining companies did increase their Zambianization efforts, but where substantial numbers of Zambians could most easily enter the economy -- in trade and services -- most positions of responsibility were still held by non-Zambians -- chiefly British nationals. The reforms forced the non-Zambians to take on nominal Zambian partners while still controlling the business. Thus many areas remained outside government control, and loopholes allowed more non-Zambians to continue their economic activities than the government wanted.

The November 1970 Reforms

3. The latest measures not only close many of the former loopholes but also extend the government takeover to encompass most of the modern sector of the economy. The measures will have no appreciable effect on the subsistence sector where the bulk of Zambians still are employed. Within the modern sector, only a few foreign firms, primarily small concerns producing consumer goods, have not been nationalized, and some of these probably will come under government control soon. The Zambian Industrial and Mining Corporation (ZIMCO), which administers all State Corporations, now will have assets of well over $700 million. No other corporation in Central or East Africa has similar assets, and few African countries can match the degree of Zambian participation in the economy.

4. A number of financial institutions are affected. The government will acquire control of Zambia's commercial banks and consolidate them into two institutions, each with 51% government ownership. Barclays will merge with the state-owned National Bank of Commerce to form the nucleus of one bank,

and the Standard Bank will be the nucleus of the second. The remaining two private commercial banks, National and Grindlays and the Commercial Bank of Zambia, will be absorbed by the two new banks. In addition, the Merchant Bank of Zambia, although technically an acceptance house, will have to offer the government a 51% interest. The State also will take over building societies, which have been supported by government funds, and will eliminate private insurance companies. After 1 January 1971, no private insurance company will be permitted to write new policies in Zambia, and none will be able to renew policies after 31 December 1971. The State Insurance Company will become the sole insurance agency in Zambia. Financial Development Corporation, a state corporation, was formed to administer the government's financial portfolio.

5. Manufacturing and trading firms also are included in the November reforms. Seven companies with monopoly or near-monopoly positions were asked to offer the government 51% ownership after apparently ignoring government hints to do so earlier.* Kaunda also indicated that other monopolistic companies would be taken over later. In addition, the government will take a 100% interest in the United Bus Company of Zambia because its minority stockholders are involved in Mozambique's Cabora Bassa project.** Other companies found associated with this undertaking also will be asked to leave the country. In a related November move, eleven firms had their trading licenses revoked immediately

The companies include Lever Brothers Limited, Refined Oil Products, National Milling Company Limited, Super Bakeries Limited, Duncan Gilby and Matthsson Limited, and Bat and Rothmans.

*** Recently, Kaunda has been actively campaigning against the $300 million Cabora Bassa hydroelectric project and has attempted to persuade the Western governments involved to withdraw their credit guarantees. Kaunda believes the completion of the dam will benefit only the white governments in southern Africa to the detriment of Black Africans.* [redacted]

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because of their alleged involvement in illegal transactions with Rhodesia or South Africa.

6. After 1 January 1972, no expatriate will be allowed to obtain a retail trading license or operate a wholesale trading firm. Both areas will be restricted to either state companies or businesses having all Zambian owners. Similar credentials will be required to operate in transportation, bricklaying, and stone crushing. The mining groups were directed to stop using expatriate subcontractors for these purposes for contracts of less than $140,000 after 1 January 1971.

Some Implications

7. For the most part the November measures are a continuation of earlier nationalizations and economic reforms, and many are designed specifically to close loopholes in previous legislation. Indeed, Kaunda apparently had hoped in 1968 that more companies would voluntarily offer the government controlling interests in their firms and that traders would take the initiative in selling their shops to Zambians. Since both goals fell short, Kaunda believed additional measures were necessary.

8. The banking reforms probably will be of some benefit to the rural economy. While the government already had some control over bank loan extensions, it could not determine general bank policy. It was, for example, unable to force commercial banks to do business in rural areas where Lusaka believed banking services were sorely neglected. The government now probably will close a number of branches in the more populated areas, where the five banks often competed, and will open some branches in remote areas. If losses are suffered in the latter areas, they could be covered by more efficient operations in the cities.

9. The transition from non-Zambian to Zambian operation of retail and wholesale businesses should be neither costly nor difficult. While temporary disruptions and stock shortages might develop as present owners draw down inventories, these problems should not affect the economy seriously.

The shopkeepers have more than one year to wind up their activities, which should be ample time for the changeover, and Zambians probably will have less trouble than before in getting bank loans to buy shops.

10. Probably those most affected by the reforms are the expatriate British, who are scheduled to lose their trading licenses and most of their companies. Not only are they being phased out of industry and trade, but also their government positions appear threatened. As more Zambians are trained and as other nationals are being recruited by the state to fill government posts, many British civil servants are finding their positions less tenable. As a result, many of the 23,000 employed expatriates probably will leave.

11. The nationalizations and associated moves have strong political motivations. Kaunda struck particularly hard at firms that had dealt with the White Redoubt (South Africa, Rhodesia, and Mozambique) and was concerned strongly with bringing more Zambians into the economy. Prior to these latest reforms, few Zambians other than miners had benefited from the country's economic growth. Kaunda also hopes that government control will enable Zambia to restructure the economy, emphasizing development goals that may not necessarily be profitable. Possibly, too, Kaunda believed that Zambia should be in the forefront of Africanization, perhaps because of his newly acquired stature among African leaders as a result of his chairmanship of the September 1970 Non-Aligned Conference in Lusaka.

12. The process of Africanization will have its short-run and long-run economic costs, especially in terms of reduced efficiency, but, with the continued presence of foreign technicians in key industries, the economy as a whole is not likely to be seriously affected. If technicians leave the country as a result of the reforms, Zambia clearly could replace them as they have in the past, although there would, of course, be some transitional costs. Indeed a Canadian group recently was contracted to manage Zambian Railways, and, as long as personnel are hired on a contract basis, Kaunda need not feel that his

image of a Zambia for Zambians is sullied. The reforms also should not measurably curtail expected private foreign investment since little is contemplated normally outside of mining, and all major planned projects are scheduled to be carried out in concert with Zambian State Corporations.