GOLD

Struggle for control of world gold markets

The international gold market has been shaped by two contradictory forces in recent weeks: On the one hand, the major British bullion dealers and mining interests have played on international investors' fears concerning the war danger in Iran (and, more recently, in Southeast Asia) to drum up a speculative stampede into gold as part of a generalized "flight from paper." On the other hand, Arab, African and other Third World central banks have been quietly accumulating gold reserves, often through the mediation of West German commercial banks. The aim in this latter case is not to undermine the dollar but to extend the fledgling European Monetary System (EMS) into a new global gold-dollar exchange standard. Unlike the London speculators, the European (EMS member) and allied Third World governments' interest in gold is not to bid the price up into the stratosphere but to stabilize it (with a targeted price range of $230-$240 an ounce, according to well-informed European sources.)

To the extent that the threat of a superpower confrontation persists, the speculators will tend to get the upper hand. Thus, the events in Iran helped spur last week's $15 surge in the gold price to a record high of $254 on Feb. 8. The market then retreated based on impressions that "the worst had already happened in Iran," reaching $237.60 at the Feb. 14 morning fixing in London — only to rebound to $249 in late New York trading the same day as news of a Vietnamese-Chinese border clash broke in the U.S. news media.

In the meantime, evidence has accumulated pointing to a possible European plan to integrate the South African government into the EMS. According to the Feb. 19 issue of Business Week, a major Saudi Arabian-South

BRITAIN

Will China bail out Britain's industry?

Will the Chinese save British industry from decline? This is the question which shop stewards from the ailing Vickers shipyard and engineering firm in Newcastle are asking. They have sent a delegation to the Chinese embassy in London to discuss a possible joint rescue operation from Peking and the British government's National Enterprise Board to bail out the Newcastle plant which would otherwise be closed down.

Other industries in Britain may soon face a similar choice. The combined effects of the transport workers strike, stagnant trade, and rising raw materials costs has plunged British industry into an acute liquidity crisis, and the Government has no intention of alleviating the situation. In fact, the Treasury announced last Friday that the Bank of England's Minimum Lending Rate, which determines the rates for bank loans and industrial credit, will be raised a full 2.5 points.

The abandonment of economic growth is now government policy in Britain. The goals of industrial expansion set out by Britain's Labour Government in its 1975 strategy for the "Regeneration of British Industry" have been all but officially abandoned. Working parties in 20 subsectors of the manufacturing industry have reported to the Government on progress made since 1975, when overall growth objectives of 4 percent per year were set. According to the Financial Times, in the third yearly review of the "Industrial Strategy," overall objectives, both in terms of increasing exports and domestic production, have had to be revised downward. Growth rates in the industrial sector barely reached 3.5 percent, while public expenditure on new projects was only between 2 and 3.5 percent per year. The volume of imports in 1975-80 grew by just under 1 percent in some manufacturing sectors and in others not at all. "The outlook reflects our continuing inability to match our industrial performance and rate of inflation to those of our major competitors," wrote Chancellor of the Exchequer Healey in a recent White Paper on government spending.

Admits the Financial Times's Eco-

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African oil-for-gold swap is being negotiated by Deutsche Bank, West Germany's largest commercial bank.. The German banks have also just completed a DM 20 million private placement loan to the South African Oil Fund, the agency which manages government oil purchases. Both the Saudi and South African governments have denied that the oil-for-gold deal is in the works, but traders have tended to ignore these denials as "pro forma." Other sources report that South Africa has approached an entire range of Arab and other oil producers, including Nigeria, to discuss oil purchases with or without the "gold angle."

The South African government may have, in fact, already linked its currency, the rand, to the EMS currencies. On Feb. 8, the South African central bank revalued the rand slightly against the U.S. dollar, from $1.15 to $1.17, following several days in which the European currencies rose strongly against the dollar. Since South Africa has extensive trade relationships with the European continent, the central bank may have decided that it made more sense to "peg" to the EMS until such time has the dollar is brought under control. In January, South African Finance Minister Owen Horwood announced that his government was watching the creation of a European "zone of monetary stability" very carefully and was considering whether to link up to the EMS.

Any further steps to bring South Africa into the new monetary system will, however, require a major factional battle within the country, which is still largely a pawn of the British-run mining companies Anglo-American Corp. and DeBeers. Following the government's decision to liberalize foreign exchange controls in late January in an effort to attract foreign capital, the Financial Times and other British organs have complained that the currency reforms did not go "far enough." The British mining interests are pressing for (1) a major devaluation of the South African rand to boost the export earnings of gold and diamond mining sectors, (2) greater freedom for private (ie. British-controlled) banks to move capital in and out of the country and conduct foreign exchange operations without supervision by the central banks, and (3) a gradual dismantling of state-run (non-mining) industry in favor of "free enterprise." The South African central bank governor Bob de Jongh has so far put up a strong fight against this "liberalization" push, although Horwood is reportedly much more inclined to go along.

The success of German plans to incorporate South Africa into the EMS will depend on building a government faction which will 1) break the Anglo-American stranglehold on the economy by nationalizing the mines, 2) launch a full-scale industrialization program, and 3) phase-out apartheid as a necessary prerequisite for developing skilled black labor-power.

— *Alice Shepard*

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nomics correspondent Peter Riddell: "One of the most curious casualities of the five years of Labour Government has been the abandonment of any specific economic growth or unemployment targets ... It is not only growth expectations that have been downgraded but also more significantly, there has been a decline in any real belief in the Government's ability to boost the growth rate, at least through direct fiscal action or intervention. The existence of the Industrial Strategy does not contradict this since the strategy does not even claim to involve a commitment to faster short-term growth."

As the West German magazine Der Spiegel described it, Britain has made a "breathtaking descent" from being the mightiest empire on earth to a near-bankrupt "tiny dot on the map."

Britain and the Mexico oil dream

A team of British industrialists was angrily shown the door when they arrived in Mexico last week to sign large orders with the Mexican national oil company, Pemex, which Dickson Mabon, Britain's Minister of State for Energy, had claimed were in the works. Mabon had told the press after his recent visit to Mexico that deals worth "many hundreds of millions of pounds," including British involvement in Pemex's development program, were on the table. The agreement supposedly involved not only large potential orders for British industries, but also included a swap of North Sea light crude oil for the heavier product expected out of Mexico's newly confirmed large offshore reserves.

Dr. Mabon was quoted as saying there had been talks about the use of British technology to help Mexico develop its large uranium reserves as well.

According to officials of both Pemex and the Mexican government, not a word of Dr. Mabon's claims is true.

Sources within the British banking and diplomatic community now confirm that the Mabon visit produced no firm agreement on either oil or uranium development and that the "light for heavy" oil swap is out of the question.

Within a week of Dr. Mabon's visit, a delegation of 35 British industrialists, members of UK and European oil technology groups, arrived in Mexico expecting to begin talks on sizeable orders for British oil tools, equipment and engineering services. Yet, when the team leader went in for a private visit with Pemex head Jorge Diaz Serrano, they received not contracts, but a stream of abuse about Dr. Mabon's fantastic lies. Delegation members were only allowed to meet with low-level Pemex technical staff and no deals were discussed.

Moreover, Serrano and other Pemex officials drilled the point home to the British group that Pemex is more interested in dealing with companies willing to build factories inside Mexico using Mexican partners and participating in the industrialization process, and has never made any secret of this fact.