

ZAMBIA.

May 1980

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10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

7 September, 1987.

Dear Lyn,

PRIME MINISTER'S MEETING WITH THE PRIME MINISTER OF ZAMBIA

The Prime Minister had a talk this evening with the Prime Minister of Zambia. Mr. Musokatwane was accompanied by the High Commissioner for Zambia.

Zambian Economy

Mr. Musokatwane handed over a message to the Prime Minister from President Kaunda about Zambia's New Economic Recovery Programme, together with supporting material. I enclose a copy of the message, to which Mr. Musokatwane spoke very closely. He claimed that the Zambian people understood the need for bold and painful measures, for which the government had prepared them. He stressed the intention to diversify away from copper, and develop non-traditional exports. Zambia's differences with the IMF did not relate to objectives but to methods and to speed of implementation. There were specific disagreements over the exchange rate and subsidies. While ready to take harsh measures, the Zambian government could not agree to increase the price of mealie meal by 100%. Even a 15% increase earlier had caused riots. He thought that some progress had been made towards convincing the IMF that some of their original prescriptions had been too severe. They had admitted in retrospect that the foreign exchange auction system could not have worked.

Mr. Musokatwane continued that Zambia hoped that the United Kingdom and its other friends would play a part in supporting the recovery programme. Additional aid was needed in the critical period between now and the end of 1988. This might include help to increase the production capacity of British firms in Zambia (presumably a coded reference to balance of payments support), commodity aid and emergency aid. Particular help was needed to cope with the effects of drought, for instance by building small dams and drilling boreholes. It might be useful to have a meeting next year of Zambia's main donors and creditors to discuss the best way forward.

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The Prime Minister said that she would look carefully at President Kaunda's letter. It was clear that Zambia faced a very difficult situation. In such circumstances, it was often better to opt for a quick and painful adjustment than to draw out the agony. Agreement with the IMF was vital in order to open other doors. Zambia must not duck the steps which had to be taken. In practice governments often found it possible to go further than they believed they could. The IMF were not unreasonable. It was very important to prepare people thoroughly for difficult steps and explain the reasons. It sounded to her as though Zambia and the IMF were drawing closer on some points. Failure to follow IMF prescriptions often led to even greater problems in the long term.

The Prime Minister said that she would reply to President Kaunda in due course. It is for consideration whether it is better to do so before or after they meet at CHOGM.

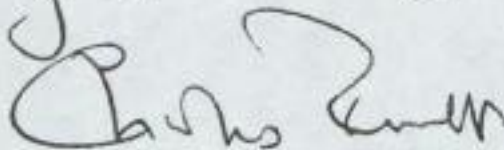
The Gulf

Mr. Musokatwane said that he had been in touch with President Kaunda during the day. He would send a message to President Saddam Hussein urging him to cooperate fully with the United Nations Secretary-General in promoting a cease-fire.

CHOGM

In a brief exchange on the prospects for CHOGM, Mr. Musokatwane expressed appreciation for Britain's help to Mozambique. The Prime Minister said that she understood that President Kaunda would not now be visiting London before CHOGM. They might aim for a bilateral in Vancouver on Monday, 12 October.

I am copying this letter and enclosure to Alex Allan (HM Treasury) and to Martin Dinham (Overseas Development Administration).

gas search,


C.D. POWELL

Lyn Parker, Esq.,
Foreign and Commonwealth Office.

PRIME MINISTER

MEETING WITH THE PRIME MINISTER OF ZAMBIA

The Foreign Secretary saw the Zambian Prime Minister this morning. His main interest was in explaining the great difficulties for Zambia in accepting the IMF's recommendations. He suggested that implementation of them would lead to rioting and deaths. The Foreign Secretary pointed out that the IMF were not unreasonable; and that in the longer term, failure to follow IMF prescriptions would probably result in even greater problems.

The Zambian Prime Minister showed himself perfectly reasonable on the subject of CHOGM. He suggested that the UK should do more to get across to Commonwealth opinion what we were already doing by way of aid to Southern African countries and to blacks in South Africa.

The Zambian Prime Minister also gave an account of his recent visit to Baghdad and meeting with Saddam Hussein. He believes that the Iraqis will be prepared to implement SCR 598 if the Iranians will also comply.

The Prime Minister said that President Kaunda was now unlikely to visit London before CHOGM.

C D P

(C.D. POWELL)

7 September 1987

DCACEB

PRIME MINISTER

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MEETING WITH THE ZAMBIAN PRIME MINISTER

You have agreed to see the Zambian Prime Minister briefly on Monday afternoon. He is said to be bearing a message from President Kaunda.

You will want to say that you look forward to seeing the President in Vancouver, or in London beforehand if he is passing through (although timing could be difficult because of the Party Conference).

We do not yet know what is in the message, but it is probably about the Zambian economy. This is in a poor state (even by Zambia's standards). An earlier IMF programme went off the rails, and President Kaunda announced in May that he was rejecting any further IMF programme. He has now published Zambia's own economic plan, which is impractical and unlikely to be acceptable to the IMF. Nonetheless, he is likely to seek resumption of our programme aid. You will want to encourage the Prime Minister to make a renewed effort to reach agreement with the IMF (he is personally in favour): while they are firm, they are not unreasonable. We can only resume our balance of payments support once there is such agreement (although our project aid and technical co-operation continue). You could point out that the Chancellor's debt proposals, if adopted, would be helpful to Zambia.

The other main subject is CHOGM. You will want to urge that this should not focus exclusively on South Africa, and warn that fresh attempts to get agreement on economic sanctions will only lead to disunity, to South Africa's benefit. We are not keen on a Zambian idea - which he may raise - for a Commonwealth declaration of principles.

The Prime Minister will just have been in Baghdad. You might ask about his impressions. You might also say that we are concerned about the activities of the Ghanaian President of the Security Council, who is being difficult about setting a tight mandate for the Secretary-General's visit to Baghdad. We hope the Zambians will use their influence to encourage him not to be obstructive.

A brief is in the folder.

CDP.

Charles Powell

4 September 1987



Foreign and Commonwealth Office

London SW1A 2AH

4 September 1987

*Dear Charles*Call by Zambian Prime Minister

/ As requested in your letter of 4 September I attach briefing for use by the Prime Minister when she sees the Zambian Prime Minister on 7 September. This has not yet been seen by Ministers here.

The Zambians have given no further indication of the contents of President Kaunda's letter. We still expect it to concern the state of the Zambian economy.

Mr Musokotwane will be accompanied only by the Zambian High Commissioner, Mr Wilted Phiri.

As agreed, I shall tell you by telephone what transpires at the Foreign Secretary's breakfast for Mr Musokotwane.

Yours ever
R N Culshaw
(R N Culshaw)
Private Secretary

C D Powell Esq
10 Downing Street



VISIT OF ZAMBIAN PRIME MINISTER

MEETING WITH PRIME MINISTER: 1600 7 SEPTEMBER

OUR OBJECTIVES

- A. To express reservations about likely success of Zambian economic plans.
- B. To encourage Zambians to mend their fences with the IMF and put sound economic policies into effect.
- C. To persuade the Zambian Prime Minister that a non-polemical CHOGM is in the best interests of all member countries.

HIS OBJECTIVES:

- A. To hand over letter from President Kaunda.
- B. Possibly to seek restoration of Programme aid on strength of New Economic Recovery Programme.
- C. To sound our views on CHOGM.



ARGUMENTS

ZAMBIAN ECONOMY

- Grateful for President's letter: considered response in due course.
- Recognise many serious economic problems in sub-Saharan Africa including Zambia: Chancellor's and Camdessus' proposals suggest ways to help.
- Many aims of Zambia's New Economic Recovery Programme (NERP) laudable but some doubts about means to achieve them: export-led growth difficult to achieve if exchange rate overvalued and tight foreign exchange controls imposed.
- Hope Zambia can work out sound economic programme with IFI (including IMF). Agreement with IFIs would release substantial concessional funds; permit rescheduling.
- IMF recognises that adjustment programme must take into account social and political considerations: will not force unacceptable policies on Zambia.

AID (Zambia)

- Long committed to Zambia's development. Largest ^{British} manpower programme in Africa.
- Providing Technical Co-operation and project aid in key sectors. But balance of payments support remains dependent on renewed agreement with IMF. Understand projects of other donors adopt such practice.
- Important to meet arrears to World Bank in order to facilitate renewal of Bank lending.

AID TO FLS

- UK providing considerable aid to FLS/SADCC - \$1.3 billion in bilateral aid to SADCC states since 1980:

- i) to further region's economic development;
- ii) to support SADCC efforts at reducing dependence on South Africa.

Since 1980 UK has also given £35 million to SADCC projects, most of which goes to vital transport sector.

- This is an area we can concentrate on at CHOGM.

FLS/SANCTIONS

- FLS should not feel pressure to take the lead on sanctions. Any sanctions bound to elicit sharp reaction from South Africa - potentially devastating for FLS economies. Economic collapse would negate SADCC's development efforts which we strongly support.

- (If raised). But cannot accept that limitations on FLS action impose an even greater onus on Western industrial countries to adopt more economic sanctions. We would not help to cushion FLS from the consequence of sanctions which they had imposed.

SOUTHERN AFRICA AT CHOGM

- Look forward to seeing President Kaunda in Vancouver or if he transits London beforehand.

- Recognise that Southern Africa will be an important issue at CHOGM. But it should not dominate agenda to exclusion of other items. Essential that it is handled in a way that promotes unity of Commonwealth.

- Concentration on economic sanctions at Vancouver would inevitably mean a divisive meeting. Only SAG would gain from public display of

disunity between Britain and the rest of Commonwealth.

- Hope that at CHOGM we can concentrate on areas of agreement, and on making a positive contribution in South Africa and the region.
- What we should be concentrating on now (through SADCC and bilaterally) is strengthening FLS, and reducing FLS dependence on South Africa; further aid to black South Africans.

ZAMBIAN IDEAS FOR CHOGM (IF RAISED): A COMMONWEALTH DECLARATION OF PRINCIPLES

- Now is not right time for Commonwealth political initiative on EPG lines. No chance of success. Consider when time is right.
- Not Commonwealth's place to prescribe constitutional principles for South Africa. All South Africans to discuss among themselves.
- (If necessary): would not be easy to agree principles in so wide a forum. Risk further divisions within Commonwealth.

IRAN/IRAQ AND THE GULF

- Understand recently visited Baghdad. Views?
- Pleased that Zambians support visit to Tehran by UNSC. Hope they can encourage Ghanaian Presidency (who seem to reflect Iranian position) not to resist tight mandate for the visit.

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MUSOKATWANE, KEBBY SILILO

Prime Minister since April 1985. MP for Katombora.

Born 1947 of chiefly family, near Livingstone. Toka. Educated Monze and Certificate of Education at UNZA. A headmaster and taught at Chipata Teacher Training College. December 1973 elected MP for Katombora. 1977 Minister for Water and Natural Resources. December 1978 re-elected as MP for Katombora. January 1979 Minister for Youth and Sport Resources. December 1979 Minister of Finance. January 1983 Minister for Youth and Sport. November 1983 Minister of General Education and Culture. January 1987-1 May 1987 assumed additional responsibility for Ministry of Finance.

One of the younger generation generally moderate in his views and takes his Ministerial duties seriously. When he was Minister for Natural Resources, an ivory trader tried to bribe him but was immediately reported to the police and was charged with corruption.

At Education he was brisk and businesslike. As Prime Minister he has continued to display energy and commitment and great loyalty to Kaunda. In January 1987 he took over Finance (on Kabwe's (qv) dismissal) two days before the budget and handled the negotiations with the IMF in April-May before handing back the Finance portfolio (to Chigaga (qv), May 1987). Was personally in favour of agreeing to the IMF's terms, but found himself overruled on his return from Washington and loyally acted as Defence Counsel.

Commonsensical, if no great intellect. Hardworking and friendly. Apparently very religious. Wife, Reginah, a keen Girl Guide. Farms some cows c/o Haggis Evans.

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PHIRI, WILTED J

High Commissioner in London since 1986.

Born 24 August 1935. Tumbuka. For some time Information Assistant in Northern Rhodesia. Information Department. 1960 full time work for UNIP. In early 1960s UNIP representative in Cairo. 1964 First Secretary, Dar es Salaam. 1966 a year's course in international law, Princeton University. Counsellor in Washington. 1967 Resident Secretary, Western Province. Then High Commissioner to Tanzania, Kenya and Uganda. 1968 Under Secretary, Minister of National Guidance. 1969 Head of Zambian Intelligence and Security Service. August 1977 nominated MP, Minister of Home Affairs following Aaron Milner's dismissal. December 1980 Special Assistant to the President (political).

An intelligent individual of sound and well reasoned judgement. Reserved, and when at State House steered clear of most diplomats, but will unbend in discussion. Personally gentle, cheerful, and friendly, and generally well-disposed to Britain and the West, but closely following whatever political lead the President gives. Very much a civil servant by training and temperament, and happy to be a bureaucrat again. Efficient in action and on paper. He won President Kaunda's confidence and respect and at State House was the most important single channel to the President, to the extent that in 1984 for real business - eg South Africa - the MFA was bypassed and did not always know what was being considered at State House. His posting to London was seen as a possible reward to his faithful service to kaunda (qv).

Married, Rosemary, eight children, son and daughter at UK schools.

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Background

1. Zambia negotiated an IMF Standby Arrangement in early 1986, but the programme soon went off track. Lower than expected earnings from copper, interference with the foreign exchange auction, and the replacement of the three main Zambian architects of the programme by others more acceptable to the party led to fiscal and monetary targets being missed, an increasing financing gap, and mounting IMF arrears. Clumsy partial withdrawal of the maize subsidy in an attempt to get the programme back on track led to shortages and food riots.
2. In his speech of 1 May 1987, President Kaunda rejected any possible IMF programme, and ended the auction. Henceforth, Zambia would design its own economic programme without IMF help. The kwacha would be set at eight to the dollar, and only about 5% of total foreign exchange earnings would be allocated to debt service.
3. The plan was eventually published on 18 August. There are major shortcomings. The aims are laudable - greater incentives for the private sector to produce for export or import substitution, export led growth, labour-intensive production, increased agricultural production, economic stabilisation, and Civil Service reform. But these objectives are unlikely to be achieved given the parallel aims of maintaining an overvalued exchange rate, applying tight foreign exchange and price controls, applying a minimum wage policy and salary increases in the Civil Service.
4. Since May, Kaunda has moderated somewhat his anti-IMF line, and has sent a copy of his plan to Camdessus. Kaunda needs to convince the IMF by the end of September that substantial progress has been made towards adjustment to avoid Zambia being declared ineligible. It is unlikely that the economic measures detailed in the new plan will be enough to satisfy the IMF staff, but they may be the basis for negotiation - secret talks with the IMF have been conducted over the last two months.

5. Theoretically, before a full IMF programme can be put in place, arrears to the IMF must be cleared. In the past, Zambia was able to raise bridging finance to pay off arrears, but at over \$300 million these now appear too large for such treatment. As there is no obvious solution, the IMF may give its approval to a revised programme (but no IMF money), thus allowing other creditors too reschedule outstanding loans and aid donors to provide new balance of payments support. This might conceivably be followed later by rescheduling of IMF, but this is unprecedented and we should not encourage the Zambians to expect it. Zambia would almost certainly benefit from the Chancellor's initiative and the enhanced SAF.

6. The authors of New Plan may be unjustifiably claiming aid donor support for it. The truth is that the US, FRG, Dutch, World Bank and even the Swedes share our reservations and are also withholding budgetary aid.

Economic Relations Department
3 September 1987



10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

4 September 1987

CALL BY ZAMBIAN PRIME MINISTER

Thank you for your letter of 3 September about the request from the Zambians for their Prime Minister to call on Mrs. Thatcher on 7 or 9 September. As I said yesterday, you can give the Zambians a generally sympathetic response to the effect that we very much hope that it will be possible. I have pencilled in 1600 on Monday 7 September as the most convenient time for the Prime Minister (who only returns from Scotland that morning). I will confirm this as soon as possible. Meanwhile I should be grateful for briefing by 1700 today.

(C. D. POWELL)

Robert Culshaw, Esq., M.V.O.,
Foreign and Commonwealth Office.



Foreign and Commonwealth Office

London SW1A 2AH

3 September 1987

Dear Charles

Call by Zambian Prime Minister

The Zambians have today made a last minute request that their Prime Minister, Mr Kebby Musokotwane, should call on the Prime Minister on 7 or 9 September to deliver a written message from President Kaunda.

Musokotwane is in London as part of a European tour. He is due to see the Foreign Secretary and the Chancellor of the Exchequer as well as other FCO Ministers on 7 September, and had not hitherto requested a meeting with Mrs Thatcher.

President Kaunda's letter, which will not require any immediate substantive response, is likely to be about the new economic plan in Zambia. This could perfectly well be handed over to the Foreign Secretary for onward transmission but the Zambians have made it clear that, whilst appreciating the last minute nature of their request, they attach importance to Mr Musokotwane meeting the Prime Minister, however briefly. We therefore hope that a short meeting can be arranged: it is not worth risking an adverse reaction in Lusaka which could rebound against our interests, most immediately at CHOGM.

Yours ever

(R N Culshaw)
Private Secretary

C D Powell Esq
PS/10 Downing Street

Original filed
on ZAMBIA:
Relations May 1979



PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T.170/87

*State House
Lusaka, Republic of Zambia*

30th August, 1987.

My Dear Prime Minister,

On 23rd January, 1987 I wrote to you as I indeed did to other Heads of State or Government and to International Institutions, expressing my gratitude on behalf of the people of Zambia for the continued assistance that is being rendered to us in our efforts to restructure the economy. In that same letter, I also outlined the measures we had taken to implement the International Monetary Fund (IMF) Restructuring Programme as well as the problems we were facing as a result of implementing that programme. I must of course thank you for your response to that letter.

A lot has happened since I wrote that letter in January. As you know, on 1st May, 1987 I announced on behalf of our Party and its Government that we had decided to discontinue the IMF Restructuring Programme. The reasons were basically those that I had outlined in my letter of 22nd January, 1987. We found that in spite of all our determined efforts and much sacrifice by our people to implement a very difficult IMF programme and despite the very much appreciated support from donor countries

/...

The Rt. Hon. Mrs. Margaret Thatcher, MP.,
Prime Minister of the United Kingdom,
No. 10 Downing Street,
LONDON.



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and International Institutions, the IMF Programme had not succeeded in arresting the country's economic decline. Instead, we found ourselves in a situation in which our currency had seriously depreciated against our major trading partners, an almost run-away inflation, unprecedented level of unemployment and increased external commitments.

Zambia has had a succession of programmes with the IMF for the past twelve years and we have been to the Paris Club three times - in 1983, 1984 and 1986 - to reschedule our debts and yet our economy continued to decline whilst our debt obligations, on the other hand, escalated. Our projections even indicated that for the next six years, we would be exporters of resources to the IMF. Obviously, we could not continue in such a situation. We had to try another programme but it required terminating the one with the IMF first.

I am now pleased to enclose for your information a copy of our New Economic Recovery Programme which we have worked out. You will observe that this programme is in fact an Interim Plan which will run from July, 1987 to December, 1988 after which we hope to embark on a new five year plan. We believe, however, that this Interim Plan is best suited to our circumstances and addresses realistically the problems that we face in our country. We hope, therefore, that in implementing this programme, we can count on your continued support and understanding as you have done in the past.

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- 3 -

Let me hasten to reaffirm that Zambia is still committed to the objectives of the restructuring programmes that we have worked out with the IMF since 1978 and which as a country we have tried to implement faithfully. These programmes have been supported by both the World Bank and donor community. We have together been working on programmes aimed at:-

- (a) diversifying exports and thereby reducing excessive dependence on copper exports;
- (b) improving capacity utilisation in the economy;
- (c) promoting labour intensive as opposed to capital intensive industries; and
- (d) increasing foreign exchange earnings.

The new restructuring programme has, therefore, been prepared with the same objectives in mind. In the main, the new programme advocates a development strategy which, while ensuring austerity, recognises the need to protect the most vulnerable members of our society who also happen to be the majority. The plan, therefore, focusses on:-

- (a) directing the country's scarce foreign exchange into the reactivation of selected high priority sectors;
- (b) stabilising the economy by controlling inflation; and
- (c) ensuring that the profits generated from the reactivated economy are reinvested in the selected sectors, so that the country's economic growth should depend principally upon such investment.

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- 4 -

Let me also restate that whilst we are emphasizing "Growth from our own Resources", this does not mean that Zambia no longer needs external assistance and support. Indeed, we need that support. We are the first to recognise our present limited capacity in earning foreign exchange and that is why one of our strategies remains the promotion of non-traditional exports.

In view of our Special relations and the support that your country has always extended and continues to do - in support of our economic endeavours - I thought it right and proper to send my colleague the Rt. Hon. K. S. K. Musokotwane, Prime Minister, to come and personally deliver this letter. This I thought would give you an opportunity to seek clarification on any matter relating to our New Economic Recovery Programme and actions we have taken in recent months.

Let me end by once again appealing to you as I did to the conscience of the International Community to pass a fair judgement on the measures we have adopted. We still remain faithful members of the IMF, World Bank and other Multi-lateral Agencies and stand ready to discuss with them as we do with your country, any matter concerning our New Economic Recovery Programme. We, therefore, look forward to receiving your reaction in due course.

God's blessings.

Your sincerely

1/10

Kenneth D. Kaunda
PRESIDENT OF THE REPUBLIC OF ZAMBIA



Foreign and Commonwealth Office

London SW1A 2AH

30 May 1980

Notes

Print - 2/6

Dear Michael,

Visit of Zambian Prime Minister

The Prime Minister of Zambia, Mr Daniel Lisulo, is paying a private visit to Britain from Sunday 1 June to Saturday 7 June. A Zambian mining company has invited him to open their new offices in Kent on Thursday 5 June.

The Zambian High Commission has not requested appointments for Mr Lisulo and the Secretary of State does not see a need for the Prime Minister to offer to see him. She will have met him at the Commonwealth Conference in Lusaka last year. Mr Lisulo officially ranks number three in the Zambian hierarchy but he is not judged by our High Commission to carry a commensurate political weight. However he is very conscious of his rank and dignity. You should simply know that he will be here.

7- over

JGH

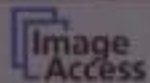
(G G H Walden)

M O'D B Alexander Esq
10 Downing Street



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