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The visit to London by the South African
Finance Minister, Senator Horwood and
his successors

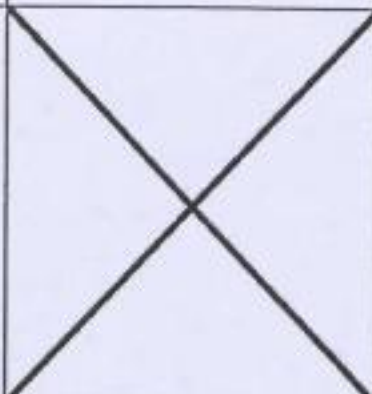
SOUTH AFRICA

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June 1979

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JSS Briefs

FROM: R N Dales, SAfD
DATE: 24 April 1989
CC: PS/Mrs Chalker
Mr Tomkys
Mr Fairweather
Economic Advisers
PUSD (DSE/CN)
News Dept

Private Secretary

CALL ON THE SECRETARY OF STATE BY THE SOUTH AFRICAN
MINISTER OF FINANCE: 0900 HRS, TUESDAY, 25 APRIL

1. Barend du Plessis will call on the Secretary of State at 9.00 am on Tuesday, 25 April. He will call on the Prime Minister at 4.30 pm today. I submit points to make for the call together with a background brief. There will inevitably be some duplication with points covered by the Prime Minister. Nevertheless, the Secretary of State will wish to cover the reforms that we are seeking from the South Africans in some detail to emphasise the point.
2. I understand that Mr du Plessis will be accompanied by the South African Ambassador and a note taker. Mrs Chalker wishes to sit in on the call. If the Secretary of State agrees, Mr Fairweather and I will also be present.

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G 3. The Secretary of State has already seen the line we have taken with the South Africans over the arrests in Paris last Friday (flag H attached).



PP. R N Dales
Southern African Department

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CALL ON THE SECRETARY OF STATE BY THE SOUTH AFRICAN
MINISTER OF FINANCE: 0900 HOURS, TUESDAY, 25 APRIL

POINTS TO MAKE

- Pleased to have chance to speak to you after gap of almost three years. Trust discussions yesterday with the Prime Minister were useful.

South Africa Internal

L - Prospects for the general election next September? How real is threat from right wing Conservative Party? Will new Democratic Party mount a serious challenge?

- Welcome recent release of large numbers of detainees. But concerned at restrictions imposed on many of those released. We have called for detainees to be charged or released unconditionally.

- Need to move as fast as possible towards normalisation of internal situation. Understand need to deal with violence. But press restrictions, indefinite continuance of State of Emergency damaging to South Africa. Must avoid criminalising peaceful opposition.

Constitutional Reform

- Understand your personal commitment to reform. Recognise difficulty of moves before elections. But very important that there should be significant steps thereafter.

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- Prime Minister and I have made considerable efforts to stem pressure for further sanctions especially in the US and EC. But this could become uncontainable if no measures within reasonable period after new Government takes office.

South African Economy

- Know that SAG is committed to economic reform: reduction in government spending and deregulation of much business activity.

- Clearly in South Africa's own interest to instigate major change. Apartheid a dead weight pulling down the South African economy. We have shown in the UK how economic liberalism can transform an economy.

- But in last analysis economic liberalism only possible within framework of political liberties. This can only mean abolition of apartheid.

- Commend your determination to continue servicing debt. An essential ingredient of process of restoring international confidence in South Africa.

- (If raised) Banks make their own judgement. Not directed by Government. But their decisions on debt rescheduling and new loans are inevitably affected by political climate in South Africa.

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UK Policy

- Areas where we would like to see progress are:
 - Steps to enable credible blacks to take part in negotiations about South Africa's future. Unless conditions are created in which moderate black leaders such as Chief Buthelezi and Chief Minister Mabuza see themselves in a position to enter into negotiations, they will lose more ground to extremists.
 - This does not mean capitulating to revolutionaries. The key word is negotiation and must include recognition of the legitimate concerns of the whites.
 - The release of Nelson Mandela and all other political prisoners. This would do much to remove the difficulties standing in the way of a dialogue between all political groups in South Africa. Understand your concerns about the reaction in South Africa to Mandela's release. But consequences of his dying in prison would be much more serious.
 - Lifting of the ban on political parties and groups which represent the interests of large sections of the black population.
 - Rescinding the State of Emergency, which cannot be left in place indefinitely.
 - Abolition of key pieces of apartheid legislation, such as the Group Areas Act.

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Mandela

- As Prime Minister will have told you, we believe that Mandela's release is in South Africa's own interests.

- In our assessment it would create a new and improved climate of benefit to South Africa internally and in her relations with the outside world.

- It would also reinforce our joint stand against sanctions and other restrictive measures.

- And it would make it easier for us to play a helpful role over the problems facing South Africa in its dealings with the banks over bearer bonds.

- Looked at realistically it would not on its own lead to the dismantling of any sanctions.

- But if South African Government were to build on Mandela's release to launch a dialogue between all political groups in South Africa, we would then see what could be done to meet South Africa's concerns on sanctions (although we would not give advance assurances affecting others).

- (Only if raised) Of course we would welcome the chance of a first-hand account of Mandela's views if that were possible. But Sir Robin Renwick has replied to the recent letter he received from Mandela, making clear that our prime concern is to hear his views when he is free.

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Namibia

- No doubt that SWAPO's large scale incursion was the root cause of problems in Namibia. A reckless and foolish act. We have condemned it forthrightly in public.

- Priority must be to repair the damage as quickly and as smoothly as possible. In all our interests for SAG to demonstrate adherence to agreements, and to keep as low a military profile as possible and to show restraint.

- Welcome agreement reached at Ruacana on a 60 hour withdrawal of South African forces, allowing SWAPO to return in safety to Angola. We are urging all those with influence to stress to SWAPO the importance of taking advantage of this.

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CALL ON THE SECRETARY OF STATE BY THE SOUTH AFRICAN
MINISTER OF FINANCE: 0900 HRS, TUESDAY, 25 APRIL

REFERENCES

- A Personality note on Barend du Plessis
- B Telegrams reporting Pik Botha's visit to the UK
- C Briefing letter from the PS to PS/Number 10 for Mr du Plessis' call on the Prime Minister
- D Record of a meeting between the Secretary of State and Mr du Plessis, 29 July 1986
- E Cape Town telno 88 of 23 February and 244 of 20 April reporting Sir Robin Renwick's meetings with Mr du Plessis
- F Cape Town telno OTTER 6 and 239 reporting on the South African economy
- G. Cape Town telno 248 reporting Citicorp rescheduling agreement
- H. Speaking Note delivered by Mr Tomkys to South African Ambassador on 24 April

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BACKGROUND

A 1. Mr du Plessis is regarded as being on the liberal wing of the National Party. He was probably P W Botha's favourite to succeed him as President. In the election for leader of the National Party, held on 3 February, Mr du Plessis was narrowly defeated by F W de Klerk, by 61 votes to 69 in the third ballot. The National Party caucus has now rallied behind F W de Klerk as their new leader. But Mr du Plessis will inevitably remain an influential figure on the South African political scene.

2. Formally, Mr du Plessis is in London on a private visit (he lunched with leading City figures on 24 April). In reality, he is here at our invitation, as part of our strategy of getting alongside future South African political leaders. As part of this strategy, the Prime Minister and Secretary of State met Pik Botha on
B 15 March. Mr du Plessis called on the Prime Minister at
C 4 pm on 24 April.

3. The Secretary of State last met Mr du Plessis on
D 29 July 1986. The record of the meeting is attached. Sir Robin Renwick has called twice recently on
E Mr du Plessis. He has reported that Mr du Plessis:

(a) is concerned at the economic consequences of not releasing Nelson Mandela;

(b) realises that South Africa cannot prosper without access to external capital;

(c) wants to see a new impetus being given to internal change and hopes that after the elections it will be possible to make progress in negotiations with black

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leaders (especially Buthelezi) but on the basis of power sharing, not a transfer of power.

South Africa Internal

4. President Botha has announced that he will dissolve Parliament at the end of May. Elections are likely to be held in September. Thereafter, President Botha will step down and will almost certainly be replaced by F W de Klerk.

5. In the interim, relations between Mr de Klerk and President Botha are likely to be uneasy. Electoral considerations are likely to inhibit the political reform process in the immediate future. But recent reformist statements by Mr de Klerk mean that prospects for a resumption after September look more encouraging.

6. The liberal opposition PFP, Independent and National Democratic Parties formally merged on 8 April to form a new Democratic Party which will contest the next elections.

7. The major recent development on the human rights front is that, following a series of hunger strikes in January and February, the Minister for Law and Order announced that he would review the case of every person detained under State of Emergency regulations. According to press reports, some 750 people have since been released from detention. We have been told, unofficially, that about 93 people remain in detention. However, many of those released have been subjected to severe restrictions on their personal liberty. Six activists who staged a sit-in in our Embassy at Pretoria on 29/30 March were protesting against such restrictions.

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Mandela

8. Nelson Mandela wrote to Sir Robin Renwick on 12 April, indicating that he would welcome a face to face discussion. Sir Robin replied on 17 April, making clear that we are primarily interested in hearing Mr Mandela's views when he is free. We are taking soundings of the South African authorities about the possibility of a meeting, should Mr Mandela request one. But we do not want to be in the position of asking for a meeting, and being turned down by the SAG.

South African Economy and Debt

F 9. Recent economic reporting from Post is attached. The need for economic reforms in South Africa is now widely recognised. Mr Du Plessis has been, together with the Governor of the Reserve Bank, one of the leading advocates of reform designed to remove many of the rigidities which have led to the decline in performance and to encourage competition and the best use of South Africa's resources. The main elements of a strategy of reform, endorsed by President Botha in 1988 and to some extent inspired by UK experience, are deregulation (affecting all racial groups), a reduction in unproductive Government spending and privatisation of state industries.

10. Though steering clear of key apartheid restriction (not least the Group Areas Act, which is a major impediment to economic efficiency) the proposed reforms should nevertheless have important political consequences. They imply a reduction in government support for the (overwhelmingly Afrikaner) bureaucracy and workforce in state industries, and opening up of urban areas to competition from black workers and businesses, and a diversion of government spending towards black needs.

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Perhaps for this reason actual progress with reform seems to have been slow. Mr Du Plessis's budget last month provided a good example: it was a conventional macro-economic package with little obvious progress in diverting resources as planned.

11. Despite the commitment to economic reform, the main preoccupation of economic policy at present appears to be the management of demand in order to guarantee the large current account surpluses required to continue servicing external debt for the next few years. The balance of payments worsened sharply last year as the economy expanded fast enough to keep pace with population growth for the first time since the debt crisis of 1985: this led the authorities to tighten monetary policy sharply over the past twelve months. Growth has now slowed down (to perhaps two per cent this year) and the current account is improving. The authorities' willingness to meeting debt service obligations is not so far in doubt, though they can be expected to drive a hard bargain under the current informal agreement with creditor banks, postponing the bulk of principal repayments to them, comes up for renegotiation after the elections. The South Africans will no doubt be encouraged by their recent dealings with Citicorp (Cape Town telno 248 attached).

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Namibia

12. A further meeting of the Joint Commission took place in Ruacana in northern Namibia on 20 April. In addition to the Angolan, Cuban and South African delegations, US and Soviet observers and UN and SWAPO officials were present in the margins.

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13. Agreement was reached on a 60 hour period in which South African forces would withdraw to bases, allowing SWAPO to return across the Angolan border in safety. The withdrawal of South African forces is due to start on Wednesday, 26 April. The Angolans have undertaken to provide the South Africans with the tape of a broadcast which SWAPO will make to its forces inside Namibia, urging them to return to Angola.

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DU PLESSIS, BAREND JACOBUS

Minister of Finance. MP for Florida, Transvaal.

Born 1940 in Johannesburg. Obtained a BSc and trained as a teacher at Potchefstroom. Taught science for one year. Worked for the SABC (1962-68) and IBM (1968-74) including training at IBM Graduate School of Banking, Princeton, USA. 1972 elected to Roodeport Town Council: Mayor 1974. Elected MP for Florida 1974. Appointed Deputy Minister of Foreign Affairs 1982: Minister of Education and Training in 1983: led moves to remove discriminatory employment practices in his Department. Appointed to current post in 1984.

On the board of various companies and involved with different religious and cultural organisations. A frequent traveller abroad. Category I visitor in 1981.

Ambitious, able and modern-minded. A rising star in the National Party who has improved his competence as Finance Minister, initiated privatisation and is tipped as an eventual leader of his party. Came a very close second to F W de Klerk in the party leadership election of February 1989.

Wife Antoinette attractive and intelligent. Keen on hunting. Three sons, one daughter.

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YOU ASKED ME TO SEND YOU CHARLES POWELL'S LETTER OF 5 MARCH. TEXT HEREWITH:

BOYHA: THE PRIME MINISTER HAD A TALK LASTING ONE AND A HALF HOURS WITH THE SOUTH AFRICAN FOREIGN MINISTER THIS AFTERNOON. PIK BOTHA WAS ACCOMPANIED BY THE SOUTH AFRICAN AMBASSADOR.

SOUTH AFRICAN POLITICS:

PIK BOTHA CONVEYED REGARDS FROM PRESIDENT BOYHA AND FROM R DE KLERK. THE POLITICAL SITUATION IN SOUTH AFRICA WAS COMPLEX AND DELICATE. PRESIDENT BOYHA HAD RETURNED TO WORK AND HAD TODAY PRESIDED OVER A CABINET MEETING. HIS MIND WAS CLEAR AND HIS SPEECH FIRM. HE WAS DEEPLY HURT BY THE IMPRESSION THAT HE WAS BEING RUN OUT OF OFFICE. HE WANTED TO CONTINUE UNTIL THE NEXT ELECTION AND LEAVE WITH DIGNITY. HE FELT THAT HIS CONTRIBUTION TO REFORM IN SOUTH AFRICA WAS NOT BEING GIVEN DUE WEIGHT. A DELEGATION OF SENIOR CABINET MINISTERS WOULD TALK TO HIM GENTLY AND SEE IF HE COULD BE PERSUADED TO GIVE UP OFFICE. BUT UNLESS A COMPROMISE COULD BE FOUND, HE COULD STAY ON AS PRESIDENT FOR UP TO A YEAR STILL.

INTERNAL CHANGE AND REFORM IN SOUTH AFRICA:

THE PRIME MINISTER SAID THAT SHE HAD CONSISTENTLY OPPOSED SANCTIONS AGAINST SOUTH AFRICA BECAUSE THEY WOULD ONLY HARM THE INTERESTS OF BLACK PEOPLE. WITHOUT ACHIEVING THE POLITICAL PROGRESS WE WANTED TO SEE. SHE HAD ALWAYS BEEN READY TO GIVE FULL CREDIT FOR THE REFORMS WHICH HAD BEEN UNDERTAKEN BY THE SOUTH AFRICAN GOVERNMENT. SHE VERY MUCH WELCOMED THE NAMIBIA AGREEMENT AND PIK BOTHA'S PART IN ACHIEVING IT. BUT MORE RECENTLY THE PACE OF REFORM HAD SLACKENED. THE CRUCIAL STEP, WHICH MUST BE FACED, WAS THE RELEASE OF MANDELA. SHE UNDERSTOOD THE SOUTH AFRICAN GOVERNMENT'S CONCERN THAT HIS RELEASE COULD LEAD TO RENEWED VIOLENCE. CERTAINLY IT WOULD HAVE TO BE CAREFULLY MANAGED. BUT THE DOWN-SIDE RISK OF NOT RELEASING HIM WAS ENORMOUS. MANDELA HAD BECOME A KIND OF TOUCHSTONE FOR THE WEST. HIS RELEASE WOULD NOT ON ITS OWN BE SUFFICIENT TO CHANGE ATTITUDES TOWARDS SOUTH AFRICA. THERE WOULD HAVE TO BE WIDER NEGOTIATIONS BETWEEN REPRESENTATIVES OF ALL RACIAL GROUPS ABOUT THE POLITICAL FUTURE. BUT NO BLACK SOUTH AFRICAN LEADER WOULD BE WILLING TO TALK WHILE MANDELA REMAINED IN PRISON. MEANWHILE, PRESSURE FOR MORE SANCTIONS WOULD GROW, PARTICULARLY IN THE UNITED STATES AND WOULD BECOME HARDER TO RESIST. HER OWN OPPOSITION TO SANCTIONS WOULD BECOME MORE DIFFICULT TO MAINTAIN UNLESS SHE COULD SHOW THAT IT WAS A BETTER WAY OF ACHIEVING PROGRESS IN SOUTH AFRICA.

THE PRIME MINISTER CONTINUED THAT WE HAD CONSISTENTLY WORKED BEHIND THE SCENES FOR PROGRESS IN SOUTH AFRICA RATHER THAN

TRYING TO EXERT PUBLIC PRESSURE. THAT HAD BEEN THE PURPOSE OF SENDING DR LEUTWILER ON HIS RECENT MISSION. THE ESSENTIAL POINT HE HAD BEEN ASKED TO CONVEY, ON BEHALF OF CHANCELLOR KOHL AND HERSELF, WAS THAT WITHOUT THE RELEASE OF MANDELA IT WOULD BECOME PROGRESSIVELY HARDER TO RESIST FURTHER SANCTIONS. RATHER THAN SHOW UNDERSTANDING OF THAT DILEMMA, PRESIDENT BOTHA'S RESPONSE HAD BEEN TO ASK WHAT SOUTH AFRICA WOULD GET IN RETURN FOR RELEASING MANDELA. SUCH AN APPROACH WAS UNREALISTIC. SOUTH AFRICA WAS APPROACHING A DIFFICULT TIME, WITH THE NEED TO REPAY BEARER BONDS AND RESCHEDULE ITS DEBTS. GOVERNMENTS AND FINANCIAL INSTITUTIONS WOULD BE RELUCTANT TO COOPERATE IN THE ABSENCE OF INTERNAL PROGRESS, AND IN THAT EVENT THE FINANCIAL PRESSURES WOULD BECOME MUCH MORE SEVERE. IT WOULD BE TRAGEDY IF SOUTH AFRICA'S DEVELOPMENT WAS HELD BACK. SHE HAD DISCUSSED THIS DILEMMA WITH CHANCELLOR KOHL AND THEY HAD DECIDED TO SPELL OUT THEIR ASSESSMENT OF THE RESPONSE WHICH SOUTH AFRICA COULD EXPECT TO MANDELA'S RELEASE IN A NOTE, WHICH SHE HANDED OVER.

PIK BOTHA READ THE NOTE AND COMMENTED THAT HE FOUND IT VERY REASONABLE. HE WOULD TAKE IT BACK TO PRESIDENT BOTHA. HE WAS HIMSELF PARTLY TO BLAME FOR PRESIDENT BOTHA'S APPROACHING THE PROBLEM IN TERMS OF WHAT SOUTH AFRICA WOULD EXPECT FROM MANDELA'S RELEASE. HE HAD ENCOURAGED THE PRESIDENT TO PUT IT IN THESE TERMS TO DR LEUTWILER AS BEING PREFERABLE TO A BLANK REFUSAL TO CONTEMPLATE HIS RELEASE. PERSONALLY HE TOTALLY AGREED WITH THE PRIME MINISTER'S VIEWS ON MANDELA. THERE WERE HESITATIONS IN THE CABINET. PEOPLE FELT THAT THEY HAD GOT THE SECURITY SITUATION UNDER CONTROL AND WERE RELUCTANT TO PUT IT IN JEOPARDY AGAIN. BUT HE BELIEVED THAT RELEASE WOULD AND MUST COME. MOST SOUTH AFRICAN POLITICAL LEADERS NOW REALISED THAT THEY HAD TO LOOK DE NOVO (UNDERLINE DE NOVO) AT THE GROUP AREAS ACT, THE SEPARATE AMENITIES ACT AND THE POPULATION REGISTRATION ACT IN ORDER TO REMOVE ALL RACIAL DISCRIMINATION, WHILE PREVENTING THE INUNDATION OF THE URBAN AREAS BY A TIDAL WAVE OF IMMIGRATION. AT THE SAME TIME THERE WAS A DESPERATE NEED FOR OUTSIDE FINANCIAL HELP. HE HAD DRAWN UP SOME IDEAS OF HIS OWN FOR A DEVELOPMENT PROGRAMME FOR SOUTHERN AFRICA. HE WOULD LEAVE THE PRIME MINISTER A PAPER ON THIS. AS THE LAST VESTIGES OF APARTHEID WERE ELIMINATED, THERE WAS A NEED FOR ECONOMIC HELP NOT JUST FOR SOUTH AFRICA BUT FOR SOUTHERN AFRICA AS A WHOLE.

THE PRIME MINISTER SAID THAT SHE WELCOMED PIK BOTHA'S COMMENTS, BUT ONE HAD TO RETURN TIME AND AGAIN TO ONE CENTRAL POINT: IMPROVING THE ECONOMIC CONDITIONS OF BLACK SOUTH AFRICANS WAS NOT ON ITS OWN ENOUGH. OF COURSE IT WAS NECESSARY AND WE WERE CONTRIBUTING TO IT IN A MAJOR WAY. BUT AS THEIR ECONOMIC SITUATION IMPROVED SO THE RESENTMENT OF BLACK SOUTH AFRICANS AT THE ABSENCE OF ANY ROLE FOR THEM IN GOVERNMENT AND POLITICAL LIFE WOULD INCREASE. THERE HAD TO BE NEGOTIATIONS BETWEEN THE GOVERNMENT AND REPRESENTATIVES OF BLACK SOUTH AFRICANS. SHE WONDERED TO WHAT EXTENT THE SOUTH AFRICAN GOVERNMENT HAD THOUGHT THIS THROUGH, BOTH IN TERMS OF PROCEDURES FOR NEGOTIATION AND THE END POINT WHICH THEY WISHED TO REACH. PIK BOTHA SAID THAT THE SOUTH AFRICAN GOVERNMENT'S OBJECTIVE COULD BE SUMMED UP IN A FEW SIMPLE WORDS: A SOCIAL, ECONOMIC AND POLITICAL ORDER BROADLY ACCEPTABLE TO ALL SOUTH AFRICANS. THE PRIME MINISTER REPLIED THAT THIS WAS EASY TO SAY. BUT WHAT DID IT MEAN IN PRACTICE? IT NEEDED TO BE SPELLED OUT IN DETAIL. PIK BOTHA SAID THAT NO SOLUTION IN SOUTH AFRICA HAD ANY CHANCE OF BEING

UTURE LAY IN ALLOWING NATURAL GROUPS TO RUN THEIR OWN AFFAIRS -
THE ZULUS IN NATAL, THE XHOSA IN OTHER AREAS, MIXED COMMUNITIES
IN SOME PARTS OF THE COUNTRY - COMING TOGETHER TO GOVERN SOUTH
AFRICA JOINTLY. THIS WAS THE THINKING BEHIND TALK OF A GREAT
NDABA.

PIK BOTHA CONTINUED, SPEAKING WITH EMOTION, THAT THERE WAS
NUMEROUS ADMIRATION AMONG ALL RACES IN SOUTH AFRICA FOR WHAT THE
PRIME MINISTER HAD DONE FOR THE PEOPLE OF THE COUNTRY. SHE HAD
SAVED THEM FROM THE CRUELTY OF SANCTIONS AND EVEN FROM
HUNGER. SHE HAD DONE FAR MORE FOR BLACK PEOPLE IN SOUTH
AFRICA THAN ANY BLACK LEADER OR ANY OTHER WORLD FIGURE. PEOPLE
FELT A TREMENDOUS GRATITUDE FOR HER UNDERSTANDING OF THE TRUE
DIFFICULTIES OF THE SOUTH AFRICAN SITUATION AND HER REFUSAL TO
ALLOW HERSELF TO BE INTIMIDATED BY INTERNATIONAL OPINION INTO
DOING WHAT SHE KNEW TO BE WRONG.

NAMIBIA:

THE PRIME MINISTER REFERRED TO THE GREAT IMPORTANCE OF THE
NAMIBIA SETTLEMENT. IT MUST BE STRICTLY OBSERVED BY ALL THE
PARTIES TO IT. SHE WONDERED WHAT ASSESSMENT THE SOUTH AFRICAN
GOVERNMENT HAD MADE OF THE LIKELY OUTCOME OF THE ELECTIONS
HERE. PIK BOTHA SAID THAT HE WAS CAUTIOUS ABOUT MAKING
PREDICTIONS AFTER SOUTH AFRICA HAD GOT THE RHODESIA ELECTIONS IN
1980 SO BADLY WRONG. HE THOUGHT THAT SWAPO WOULD GET OVER
50 PER CENT BUT DOUBTED IT WOULD REACH TWO-THIRDS OF THE VOTE.
SWAPO WAS TRYING TO EXTEND ITS CONTACTS WITH SOUTH AFRICA.
UJOMA HAD RECENTLY MET THE SOUTH AFRICAN AMBASSADOR IN BONN AND
HAD ALSO BEEN PRESENT AT A MEETING WITH PRESIDENT NAUHA AND AN
SENIOR SOUTH AFRICAN OFFICIAL LAST WEEK. PIK BOTHA ADDED THAT
HE HAD NO FEAR OF AN INDEPENDENT NAMIBIA. THE RAILWAY LINE WENT
ONLY ONE WAY AND WALVIS BAY REMAINED IN SOUTH AFRICAN HANDS.
THERE COULD BE NO QUESTION OF TAMPERING WITH THAT.

PIK BOTHA CONTINUED THAT THERE WAS ONE URGENT MATTER HE WISHED
TO RAISE WITH THE PRIME MINISTER. THE UNITED NATIONS SECRETARY
GENERAL HAD RECENTLY ISSUED A CIRCULAR ASKING FOR FURTHER FUNDS
FOR THE NAMIBIA INSTITUTE AND THE COUNCIL OF NAMIBIA. THESE
FUNDS WERE EXCLUSIVELY FOR THE BENEFIT OF SWAPO. IT WAS FLATLY
CONTRARY TO THE TERMS OF THE AGREEMENT FOR THE UNITED NATIONS TO
CONTINUE TO SHOW PARTIALITY FOR ONE PARTY. UNLESS THE
COLLECTION OF SUCH FUNDS WAS STOPPED PROMPTLY, SOUTH AFRICA
MIGHT HAVE TO CALL A TEMPORARY HALT TO THE PROCESS OF
IMPLEMENTING THE NAMIBIA AGREEMENT. THE PRIME MINISTER SAID
THAT MR BOTHA SHOULD DISCUSS THIS WITH THE FOREIGN SECRETARY.

MOZAMBIQUE:

PIK BOTHA SAID THAT HE SAW MOZAMBIQUE AS THE NEXT PRIORITY FOR
SOUTH AFRICA. HIS AIM WAS TO ORGANISE A CONFERENCE INVOLVING
ZIMBABWE, MALAWI AND SOUTH AFRICA TO RESOLVE THE FRELIMO/RENAMO
PROBLEM AND BRING PEACE. THERE WERE INDICATIONS THAT PRESIDENT
MUGABE MIGHT BE PREPARED TO TALK TO THE SOUTH AFRICANS ABOUT
MOZAMBIQUE IF ASKED TO DO SO BY CHISSANO. MEANWHILE SOUTH
AFRICA WAS PROVIDING ECONOMIC HELP TO MOZAMBIQUE AS WELL AS
ASSISTANCE IN PROTECTING THE RAILWAY AND MAIN ROAD ROUTES.

THE PRIME MINISTER SAID THAT THERE WERE PERSISTENT REPORTS THAT
SOUTH AFRICA CONTINUED TO SUPPLY RENAMO. PIK BOTHA SAID THAT HE
COULD GIVE A CATEGORICAL ASSURANCE THAT SOUTH AFRICA WAS NOT
PROVIDING SUCH ASSISTANCE. THE PRIME MINISTER ASKED WHETHER HE

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WAS REALLY CONFIDENT OF THIS. MIGHT THERE NOT BE SOME GROUPS AMONG THE MILITARY OR EVEN PRIVATE INDIVIDUALS WHO WERE HELPING? PIK BOTHA SAID THAT HE COULD NOT ABSOLUTELY RULE THIS OUT, BUT ALL THE ALLEGATIONS WHICH HE HAD INVESTIGATED SO FAR HAD PROVED FALSE. HE WOULD REPORT THE PRIME MINISTER'S CONCERN TO THE SOUTH AFRICAN CABINET. HE COULD ASSURE HER THAT SOUTH AFRICA WANTED TO SEE THE WAR STOPPED. WITH ASSISTANCE FROM THE UNITED KINGDOM AND THE UNITED STATES HE BELIEVED THAT SOMETHING DRAMATIC COULD BE ACHIEVED IN THE NEXT FEW MONTHS.

THE PRIME MINISTER ASKED ABOUT PRESIDENT CHISSANO'S HEALTH. PIK BOTHA SAID THAT HE HAD ASKED CHISSANO STRAIGHT OUT RECENTLY WHETHER IT WAS TRUE HE HAD CANCER. CHISSANO HAD REPLIED THAT HE HAD BEEN ASSURED THAT THERE WAS NO MALIGNANCY.

FURTHER VISITS:

THE PRIME MINISTER MENTIONED THAT HE HAD HEARD THAT FINANCE MINISTER DU PLESSIS MIGHT BE VISITING LONDON IN APRIL. SHE WOULD BE VERY HAPPY TO SEE HIM WHEN HE COMES. PIK BOTHA SAID THAT HE THOUGHT THIS WOULD BE VERY WELCOME. HE WOULD TELL MR DU PLESSIS. ENDS

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PERSONAL FOR HEAD OF MISSION FROM PRIVATE SECRETARY

MY FOUR IPTS (NOT TO ALL): PIK BOTHA'S VISIT:
OTHER REGIONAL ISSUES

1. THE MATERIAL IN THIS TELEGRAM IS SENSITIVE AND IS FOR YOUR
BACKGROUND INFORMATION ONLY.

MARSHALL AID PLAN

2. PIK BOTHA GAVE THE PRIME MINISTER AND SECRETARY OF STATE
COPIES OF HIS PROPOSAL FOR A DEVELOPMENT PROGRAMME FOR SOUTHERN
AFRICA. HE TOLD THE SECRETARY OF STATE THAT THE SOUTH AFRICAN
CABINET HAD ENDORSED A KEY SENTENCE IN THE DOCUMENT ABOUT SOUTH
AFRICAN EFFORTS QUOTE TO EVOLVE A DOMESTIC, SOCIAL AND POLITICAL
ORDER BROADLY ACCEPTABLE TO ALL SOUTH AFRICANS UNQUOTE.
SOUTHERN AFRICA WAS DEFINED AS SOUTH AFRICA, ZIMBABWE, MALAWI,
MOZAMBIQUE, NAMIBIA AND THE BLS. NO WIDER (ANGOLA AND ZAMBIA
WERE DEAD CASES: ZAMBIA HAD BEEN RAPED OF ITS NATURAL RESOURCES
AND WAS FINISHED). SOUTH AFRICA HAD THE KNOWLEDGE AND THE
INFRA-STRUCTURE TO DEVELOP THE REGION. BUT HE WAS SAYING TO
EUROPE: WE NEED YOUR MONEY. THE GOVERNMENTS OF THE OTHER
COUNTRIES CONCERNED WERE POSITIVE. EVEN MUGABE WOULD SAY YES
EVENTUALLY IF THE PROJECT WAS PRESENTED WELL PUBLICLY.

3. THE SECRETARY OF STATE SAID THAT WE WOULD STUDY THE SOUTH
AFRICAN DOCUMENT. THERE WAS A CLEAR RELATIONSHIP BETWEEN
PROGRESS TOWARDS POLITICAL SETTLEMENTS AND ECONOMIC COOPERATION.
THERE WAS NO POINT IN POURING IN MONEY IF THERE WAS
DESTABILISATION. MOZAMBIQUE WAS A CASE IN POINT. PIK AND HE
HAD DISCUSSED CAHORA BASSA IN DECEMBER 1983 BUT THE PROJECT WAS
STILL FALTERING BECAUSE OF THE WAR IN MOZAMBIQUE. THE WORLD
NEEDED CONFIDENCE IN THE UNQUALIFIED NATURE OF SOUTH AFRICAN
POLICY AND AN ASSURANCE THAT THERE WAS NO BACKSTAGE SUPPORT FOR
RENAMO.

4. THE SECRETARY OF STATE ADDED THAT HE WAS INSTINCTIVELY WARY
OF CONCEPTS SUCH AS A MARSHALL PLAN. THEY COULD BE SEEN AS A
SUBSTITUTE FOR POLITICAL PROGRESS. HE WAS NOT DISMISSING THE
IDEA. BUT THERE WAS MORE THAN ONE WAY OF ACHIEVING THE DESIRED
AIM. COOPERATION WAS ALREADY HAPPENING. WE HAD GIVEN MORE THAN
ONE BILLION POUNDS TO SADCC IN THE PAST FIVE YEARS AND WERE ALSO
HELPING THE FLS. THE EUROPEANS, CANADIANS AND OTHERS WERE
SIMILARLY WORKING AT ASPECTS OF THE PROBLEM. THE MORE SUCH
EFFORTS WERE CONCERTED, THE BETTER. BUT WHAT THE WORLD WANTED
WAS THE PROSPECT OF POLITICAL STABILITY AND ECONOMIC PROGRESS.

MOZAMBIQUE

5. PIK BOTHA TOLD THE PRIME MINISTER THAT HE SAW MOZAMBIQUE AS
THE NEXT PRIORITY FOR SOUTH AFRICA. HIS AIM WAS TO ORGANISE A
CONFERENCE INVOLVING ZIMBABWE, MALAWI AND SOUTH AFRICA TO

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RESOLVE THE FRELIMO/RENAMO PROBLEM AND BRING PEACE. THERE WERE INDICATIONS THAT PRESIDENT MUGABE MIGHT BE PREPARED TO TALK TO THE SOUTH AFRICANS ABOUT MOZAMBIQUE IF ASKED TO DO SO BY CHISSANO. MEANWHILE SOUTH AFRICA WAS PROVIDING ECONOMIC HELP TO MOZAMBIQUE AS WELL AS ASSISTANCE IN PROTECTING THE RAILWAY AND MAIN ROAD ROUTES.

6. THE PRIME MINISTER SAID THAT THERE WERE PERSISTENT REPORTS THAT SOUTH AFRICA CONTINUED TO SUPPLY RENAMO. PIK BOTHA SAID THAT HE COULD GIVE A CATEGORICAL ASSURANCE THAT SOUTH AFRICA WAS NOT PROVIDING SUCH ASSISTANCE. THE PRIME MINISTER ASKED WHETHER HE WAS REALLY CONFIDENT OF THIS. MIGHT THERE NOT BE SOME GROUPS AMONG THE MILITARY OR EVEN PRIVATE INDIVIDUALS WHO WERE HELPING? PIK BOTHA SAID THAT HE COULD NOT ABSOLUTELY RULE THIS OUT. BUT ALL THE ALLEGATIONS WHICH HE HAD INVESTIGATED SO FAR HAD PROVED FALSE. HE WOULD REPORT THE PRIME MINISTER'S CONCERN TO THE SOUTH AFRICAN CABINET. HE COULD ASSURE HER THAT SOUTH AFRICA WANTED TO SEE THE WAR STOPPED. WITH ASSISTANCE FROM THE UNITED KINGDOM AND THE UNITED STATES HE BELIEVED THAT SOMETHING DRAMATIC COULD BE ACHIEVED IN THE NEXT FEW MONTHS.

7. THE PRIME MINISTER ASKED ABOUT PRESIDENT CHISSANO'S HEALTH. PIK BOTHA SAID THAT HE HAD ASKED CHISSANO STRAIGHT OUT RECENTLY WHETHER IT WAS TRUE HE HAD CANCER. CHISSANO HAD REPLIED THAT HE HAD BEEN ASSURED THERE WAS NO MALIGNANCY.

8. BOTHA MADE A NUMBER OF ADDITIONAL POINTS TO THE SECRETARY OF STATE:

I) MUGABE WAS CURRENTLY MUCH MORE REALISTIC. HE HAD SAID THAT HE WOULD BE WILLING TO OPEN A DIALOGUE WITH SOUTH AFRICA AND RENAMO PROVIDED HE WAS ASKED TO DO SO IN WRITING BY PRESIDENT CHISSANO. BOTHA HIMSELF FELT THAT ONLY JOINT ACTION ON RENAMO WOULD BE EFFECTIVE. HENCE THE PROPOSAL FOR A JOINT CONFERENCE INVOLVING SOUTH AFRICA, ZIMBABWE, MOZAMBIQUE AND MALAWI. ONCE CHISSANO HAD WRITTEN TO MUGABE THE FIRST JOINT MEETING COULD TAKE PLACE SOON THEREAFTER. BOTHA HOPED THAT IT WOULD BE A PUBLICISED MEETING RATHER THAN SECRET:

II) THE IDEA OF THE CONFERENCE WOULD BE TO AGREE ON STEPS TO END THE WAR. PIK HAD INVITED THE UNITED STATES TO PLAY A CONSTRUCTIVE ROLE. AND THE AMERICANS AND RUSSIANS MIGHT BE HOVERING IN THE BACKGROUND:

III) IN PIK'S VIEW, ZIMBABWE WANTED TO GET OUT OF MOZAMBIQUE. THEIR PRESENCE WAS VERY EXPENSIVE AND THE ZIMBABWEANS FELT THE ABYSS BENEATH THEIR FEET:

IV) RENAMO SHOULD NOT BE UNDERESTIMATED. PRESIDENT BOTHA HAD DESCRIBED THEM AS A HANDFUL OF FLIES BUT THEY WERE MORE THAN THAT (THE SOUTH AFRICAN ESTIMATE WAS THAT RENAMO STRENGTH WAS ABOUT 25,000). PIK REPEATED HIS ASSURANCE TO THE PRIME MINISTER THAT THERE WAS NO SAG SUPPORT FOR RENAMO. HE THEN ADDED THAT PERHAPS CERTAIN ELEMENTS, WHOM HE WAS TRYING TO IDENTIFY, WERE SUPPORTING THEM:

V) PIK GAVE AN ACCOUNT OF THE GERMAN SHIP INCIDENT. HE SAID THAT ONE OF THE SOUTH AFRICAN INTELLIGENCE SERVICES HAD ACTED WITHOUT AUTHORITY TO HELP OUT THE GERMAN INTELLIGENCE SERVICE BY SENDING AN AIRCRAFT FROM SOUTH AFRICA TO PICK UP THE CAPTAIN AND CREW AND FLY THEM TO DURBAN:

VI) PIK BOTHA WAS ENCOURAGED BY THE POSITIVE MOZAMBIKAN RESPONSE TO SOUTH AFRICAN PROPOSALS FOR JOINT ACTION WITH FRELIMO TO SECURE THE RAIL AND ROAD ROUTES FROM SOUTH AFRICA TO MAPUTO PORT. SOUTH AFRICA WAS VERY KEEN TO PRESS AHEAD WITH THIS. SUCCESS COULD BE ACHIEVED EVEN WITHOUT A POLITICAL SETTLEMENT IN MOZAMBIQUE. CHISSANO HAD FOR THE FIRST TIME AGREED TO JOINT SECURITY CONTROL OF THE RAILWAY LINE.

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ZIMBABWE /

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ZIMBABWE

THE SECRETARY OF STATE SAID THAT IT WAS ESSENTIAL THAT SOUTH AFRICAN SPECIAL FORCES SHOULD NOT ATTEMPT TO MOUNT RAIDS INTO ZIMBABWE TO LIBERATE MEMBERS HELD IN ZIMBABWEAN PRISONS. TO DO SO WOULD REALLY UPSET THE APPLE CART. PIK BOTHA REPLIED THAT IF THOSE CONCERNED WERE SENTENCED TO DEATH THIS WOULD TRIGGER A DESPERATE SITUATION. SOUTH AFRICA MIGHT HAVE NO ALTERNATIVE BUT TO ACT. IN ORDER TO AVOID RUINING REGIONAL COOPERATION, HE WAS TRYING TO PUT TOGETHER A DEAL IN WHICH IBRAHIM (THE SENIOR ANC CADRE RECENTLY SENTENCED IN SOUTH AFRICA) AND ONE OR TWO OF THOSE SENTENCED AT THE RIVONIA TRIAL MIGHT BE EXCHANGED FOR SOUTH AFRICAN PRISONERS HELD IN ZIMBABWE (COMMENT: THIS DOES NOT SEEM VERY REALISTIC: ZIMBABWE HAS REJECTED SUCH DEALS IN THE PAST, AND THE RIVONIA TRIAL WAS IN 1964).

BOTSWANA

10. PIK BOTHA REITERATED SOUTH AFRICAN COMPLAINTS ABOUT THE PROBLEMS OF DEALING WITH BOTSWANA. HE HAD NOTHING AGAINST DR CHIEPE (QUOTE WHOM I CALL MA UNQUOTE). BUT THE BOTSWANA POLICE, CUSTOMS AND SOLDIERS AT ROAD-BLOCKS WERE FACILITATING OR TURNING A BLIND-EYE TO ANC INFILTRATION INTO SOUTH AFRICA. HE ACCEPTED THAT THE BOTSWANA GOVERNMENT COULD NOT CONTROL ALL INFILTRATION. BUT THEY MUST NOT ASSIST IT. HE HAD ALSO PLEADED IN VAIN WITH THE BOTSWANA TO ALLOW A RESIDENT SOUTH AFRICAN REPRESENTATIVE SO AS TO ENABLE URGENT MESSAGES TO BE PASSED, THEREBY AVOIDING CLASHES. BOTSWANA WAS THE ONLY NEIGHBOUR TO REFUSE SUCH AN ARRANGEMENT.

MISCELLANY

11. PIK CONCLUDED WITH A TRAGI-COMIC LITANY OF COMPLAINTS ABOUT HIS PROBLEMS AS FOREIGN MINISTER IN DEALING WITH THE LEADERS OF THE SMALLER NEIGHBOURS. HE HAD HAD TO USE SECRET FUNDS TO PAY OFF PRESIDENT MASIRE'S ACCUMULATED DEBTS FOR PURCHASES OF FERTILISER. IN SWAZILAND. HE HAD HAD TO DISSUADE THE YOUNG KING FROM BUYING EXPENSIVE CARS WHICH COULD NOT BE SERVICED LOCALLY. AND FROM PAYING SINISTER CHINAMEN OVER THE ODDS FOR UNNECESSARY AND EXTRAVAGANT BUILDINGS. HE HAD ALSO HAD TO DEAL WITH THE KING'S ELDER BROTHER WHO HAD WANTED TO MURDER HIS SIBLING. AND WITH THE PROBLEM OF THE RIVAL QUEEN MOTHERS. IN LESOTHO. HE HAD HAD TO STAGE-MANAGE THE RETURN FROM EXILE OF THE BASOTHO CONGRESS PARTY AND TO DEFUSE TENSIONS BETWEEN GENERAL LEKHANYA AND THE KING AND THE LETSIE BROTHERS AND THE KING. AT 4 O'CLOCK ONE MORNING HE HAD HAD TO DISSUADE CHIEF BUTHELEZI FROM SENDING HIS IMPIS TO INVADE SWAZILAND TO AVENGE VARIOUS HISTORIC SLIGHTS AND THE TREATMENT OF BUTHELEZI'S SISTER (MARRIED TO PRINCE BHEKIMPI). AND SO ON. SUCH ISSUES TOOK UP TWO-THIRDS OF HIS TIME. THE SECRETARY OF STATE WAS LUCKY ONLY TO HAVE TO DEAL WITH EUROPEANS.

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PERSONAL FOR HEAD OF MISSION FROM PRIVATE SECRETARY
MY 3 IPTS: PIK BOTHA'S VISIT: SOUTH AFRICA INTERNAL/SANCTIONS

1. THE MATERIAL IN THIS TELEGRAM IS SENSITIVE AND FOR YOUR BACKGROUND INFORMATION ONLY.
2. PIK BOTHA TOLD THE PRIME MINISTER AND THE SECRETARY OF STATE THAT THE POLITICAL SITUATION IN SOUTH AFRICA WAS COMPLEX AND DELICATE. PRESIDENT BOTHA HAD BEEN DEEPLY HURT BY THE IMPRESSION THAT HE WAS BEING RUN OUT OF OFFICE. HE WANTED TO CONTINUE UNTIL THE NEXT ELECTION AND LEAVE WITH DIGNITY. A DELEGATION OF SENIOR CABINET MINISTERS WOULD TALK TO HIM GENTLY AND SEE IF HE COULD BE PERSUADED TO GIVE UP OFFICE. BUT UNLESS A COMPROMISE COULD BE FOUND HE COULD STAY AS PRESIDENT FOR UP TO A YEAR STILL. HE HAD ALWAYS ADVISED THE NATIONAL PARTY CAUCUS THAT P W WOULD BE MORE DIFFICULT TO DISLODGE THAN THEY THOUGHT. IF HE COULD NOT BE PERSUADED TO GO. A PACT FOR CO-EXISTENCE WOULD HAVE TO BE REACHED. WHATEVER HAPPENED. IT WOULD BE DE KLERK AND THE NATIONAL PARTY WHO WROTE THE PLATFORM FOR THE NEXT ELECTION.
3. THE PRIME MINISTER SAID THAT SHE HAD CONSISTENTLY OPPOSED SANCTIONS AGAINST SOUTH AFRICA BECAUSE THEY WOULD ONLY HARM THE INTERESTS OF BLACK PEOPLE. WITHOUT ACHIEVING THE POLITICAL PROGRESS WE WANTED TO SEE. SHE HAD ALWAYS BEEN READY TO GIVE FULL CREDIT FOR THE REFORMS WHICH HAD BEEN UNDERTAKEN BY THE SOUTH AFRICAN GOVERNMENT. BUT MORE RECENTLY THE PACE OF REFORM HAD SLACKENED. THE CRUCIAL STEP, WHICH MUST BE FACED. WAS THE RELEASE OF MANDELA. SHE UNDERSTOOD THE SOUTH AFRICAN GOVERNMENT'S CONCERN THAT HIS RELEASE COULD LEAD TO RENEWED VIOLENCE. CERTAINLY IT WOULD HAVE TO BE CAREFULLY MANAGED. BUT THE DOWN-SIDE RISK OF NOT RELEASING HIM WAS ENORMOUS. MANDELA HAD BECOME A KIND OF TOUCHSTONE FOR THE WEST. HIS RELEASE WOULD NOT ON ITS OWN BE SUFFICIENT TO CHANGE ATTITUDES TOWARDS SOUTH AFRICA. THERE WOULD ALSO HAVE TO BE WIDER NEGOTIATIONS BETWEEN REPRESENTATIVES OF ALL RACIAL GROUPS ABOUT THE POLITICAL FUTURE. BUT NO BLACK SOUTH AFRICAN LEADER WOULD BE WILLING TO TALK WHILE MANDELA REMAINED IN PRISON. MEANWHILE. PRESSURE FOR MORE SANCTIONS WOULD GROW. PARTICULARLY IN THE UNITED STATES, AND WOULD BECOME HARDER TO RESIST. HER OWN OPPOSITION TO SANCTIONS WOULD BECOME MORE DIFFICULT TO MAINTAIN UNLESS SHE COULD SHOW THAT IT WAS A BETTER WAY OF ACHIEVING PROGRESS IN SOUTH AFRICA.
4. PIK BOTHA SAID THAT HE PERSONALLY AGREED TOTALLY WITH THE PRIME MINISTER'S VIEWS ON MANDELA. THERE WERE HESITATIONS IN THE SOUTH AFRICAN CABINET. PEOPLE FELT THAT THEY HAD GOT THE SECURITY SITUATION UNDER CONTROL AND WERE RELUCTANT TO PUT IT IN JEOPARDY AGAIN. BUT HE BELIEVED THAT MANDELA'S RELEASE WOULD AND MUST COME. MOST SOUTH AFRICAN POLITICAL LEADERS NOW REALISED THAT THEY HAD TO LOOK DE NOVO AT THE GROUP AREAS ACT, THE SEPARATE AMENITIES ACT AND THE POPULATION REGISTRATION ACT

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IN ORDER TO REMOVE ALL RACIAL DISCRIMINATION, WHILE PREVENTING THE INUNDATION OF THE URBAN AREAS BY A TIDAL WAVE OF IMMIGRATION. AT THE SAME TIME THERE WAS A DESPERATE NEED FOR OUTSIDE FINANCIAL HELP. HE HAD DRAWN UP SOME IDEAS OF HIS OWN FOR A DEVELOPMENT PROGRAMME FOR SOUTHERN AFRICA. HE GAVE THE PRIME MINISTER AND THE SECRETARY OF STATE A PAPER ON THIS (THE MARSHALL PLAN). AS THE LAST VESTIGES OF APARTHEID WERE ELIMINATED, THERE WAS A NEED FOR ECONOMIC HELP NOT JUST FOR SOUTH AFRICA BUT FOR SOUTHERN AFRICA AS A WHOLE.

5. THE PRIME MINISTER WELCOMED PIK BOTHA'S COMMENTS. BUT ONE HAD TO RETURN TIME AND AGAIN TO ONE CENTRAL POINT: IMPROVING THE ECONOMIC CONDITIONS OF BLACK SOUTH AFRICANS WAS NOT ON ITS OWN ENOUGH. OF COURSE IT WAS NECESSARY AND WE WERE CONTRIBUTING TO IT IN A MAJOR WAY. BUT AS THEIR ECONOMIC SITUATION IMPROVED SO THE RESENTMENT OF BLACK SOUTH AFRICANS AT THE ABSENCE OF ANY ROLE FOR THEM IN GOVERNMENT AND POLITICAL LIFE WOULD INCREASE. THERE HAD TO BE NEGOTIATIONS BETWEEN THE GOVERNMENT AND REPRESENTATIVES OF BLACK SOUTH AFRICANS. SHE WONDERED TO WHAT EXTENT THE SOUTH AFRICAN GOVERNMENT HAD THOUGHT THIS THROUGH, BOTH IN TERMS OF PROCEDURES FOR NEGOTIATION AND THE END POINT WHICH THEY WISHED TO REACH. PIK BOTHA SAID THAT THE SOUTH AFRICAN GOVERNMENT'S OBJECTIVE COULD BE SUMMED UP IN A FEW SIMPLE WORDS: A SOCIAL, ECONOMIC AND POLITICAL ORDER BROADLY ACCEPTABLE TO ALL SOUTH AFRICANS. THE PRIME MINISTER ASKED WHAT THIS MEANT IN PRACTICE? IT NEEDED TO BE SPELLED OUT IN DETAIL. PIK BOTHA SAID THAT NO SOLUTION IN SOUTH AFRICA HAD ANY CHANCE OF BEING VIABLE UNLESS IT WAS BASED ON THE REALITY OF SOUTH AFRICA. THE FUTURE LAY IN ALLOWING NATURAL GROUPS TO RUN THEIR OWN AFFAIRS - THE ZULUS IN NATAL, THE XHOSA IN OTHER AREAS, MIXED COMMUNITIES IN SOME PARTS OF THE COUNTRY - COMING TOGETHER TO GOVERN SOUTH AFRICA JOINTLY. THIS WAS THE THINKING BEHIND TALKS OF A GREAT INDABA.

6. WITH THE SECRETARY OF STATE, PIK BOTHA ARGUED THAT INTERNATIONAL PRESSURE FOR SANCTIONS HAD DIMINISHED AND WAS MOST UNLIKELY TO RETURN. THE SECRETARY OF STATE WARNED THAT IT WOULD BE MOST UNWISE TO IGNORE THEIR RESURRECTION POTENTIAL. APART FROM THE COMMONWEALTH COMMITTEE OF FOREIGN MINISTERS AND THE US CONGRESS, THE NEW US ADMINISTRATION WAS RE-ASSESSING POLICY AND THERE WERE REGULAR STIRRINGS ON THE SANCTIONS FRONT WITHIN THE TWELVE, WHERE APART FROM US ONLY THE PORTUGUESE WERE SOLID. WE WERE CONSTANTLY HAVING TO RE-FIGHT THE SANCTIONS ARGUMENT AND ONLY THE TIP OF THE ICEBERG EMERGED ABOVE THE SURFACE. IT WOULD ONLY TAKE, FOR EXAMPLE, A CHECK IN THE NAMIBIAN INDEPENDENCE PROCESS OR USE OF THE NEW FOREIGN FUNDING BILL TO OBSTRUCT BENEVOLENT AID PROGRAMMES FOR BLACK SOUTH AFRICANS TO REVIVE SANCTIONS PRESSURE IN A BIG WAY.

7. OTHER INTERNAL ISSUES RAISED BY THE SECRETARY OF STATE WERE AS FOLLOWS:

A) THE SECRETARY OF STATE ASKED ABOUT THE SAG'S REACTION TO THE LAW COMMISSION'S REPORT. DFA OFFICIALS POINTED OUT THAT IT WAS IN EFFECT A GREEN PAPER INTENDED TO STIMULATE DEBATE RATHER THAN A DOCUMENT FOR EARLY DECISIONS. (PIK APPEARED TO RELISH THE EMBARRASSMENT IT WAS LIKELY TO CAUSE SOME OF HIS MINISTERIAL COLLEAGUES.)

B) THE SECRETARY OF STATE SAID THAT HE HAD BEEN ENCOURAGED BY DE KLERK'S PUBLIC STATEMENTS SINCE HIS ELECTION AS NATIONAL PARTY LEADER, INCLUDING HIS CALL FOR DISCUSSIONS WITH BLACK LEADERS. WE WELCOMED SOME RECENT DECISIONS SUCH AS THE COMMUTATION OF MORE DEATH SENTENCES, DROPPING OF THE GROUP AREAS ENFORCEMENT BILL, AND THE RELEASE OF 250 DETAINEES (BUT IT WAS

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...AL TO REVIEW ALL REMAINING CASES). HE HOPED THAT THIS TREND WOULD CONTINUE. SIR ROBIN RENWICK POINTED OUT THAT SOME DETAINEES HAD BEEN IN DETENTION FOR TWO AND A HALF YEARS: THEY SHOULD BE RELEASED OR CHARGED. PIK TOOK THE POINT BUT SAID THAT THERE WERE PROBLEMS WITH THE SECURITY POLICE. IN SUCH CASES, HE WAS ARGUING FOR RELEASE UNDER RESTRICTIONS AS A HALF WAY HOUSE HE ANYWAY BELIEVED THAT THE SEASON FOR VIOLENCE WAS OVER:

C) THE SECRETARY OF STATE SAID THAT WE COULD NOT SUPPORT THE CONTINUED IMPOSITION OF RESTRICTIONS SUCH AS THE STATE OF EMERGENCY AND CENSORSHIP. THE SUSPENSION OF NEWSPAPERS AND PERIODICALS HAD A DISPROPORTIONATELY BAD EFFECT ON THE OUTSIDE WORLD. WE WELCOMED THE CHANGES THE SAG HAD ACCEPTED TO THE DISCLOSURE OF FOREIGN FUNDING BILL. BUT THEY WOULD DO WELL TO ENSURE THAT IT WAS OPERATED SENSITIVELY. PIK SAID THAT THE SAG WOULD NOT BEHAVE FOOLISHLY. PROVIDED FUNDS WERE NOT INTENDED FOR TERRORISTS OR TO INTERFERE DIRECTLY IN THE POLITICAL PROCESS THEY WOULD NOT BE STOPPED. BUT WE SHOULD NOT BE SURPRISED IF DISCLOSURE REVEALED THE FACT THAT THE CHURCHES HAD BEEN STEALING FUNDS (BY WHICH HE EVIDENTLY MEANT USING THEM FOR PURPOSES FOR WHICH THEY WERE NOT INTENDED):

D) THE SECRETARY OF STATE RAISED THE DELMAS TREASON TRIAL. IT WAS IMPORTANT TO AVOID GIVING THE IMPRESSION THAT THE SAG WERE CRIMINALISING LEGITIMATE OPPOSITION. PIK POINTED OUT THAT THE DELMAS CASE HAD GONE TO APPEAL. HE ARGUED THAT THE JUDGE HAD BEEN QUOTED OUT OF CONTEXT. SIR ROBIN RENWICK SAID THAT THE JUDGE HAD MADE A VERY POOR IMPRESSION AND HAD NOT, UNFORTUNATELY, BEEN QUOTED OUT OF CONTEXT:

E) THE SECRETARY OF STATE ASKED WHETHER THE SAG INTENDED TO REPEAL THE SEPARATE AMENITIES ACT. OUR IMPRESSION FROM WHAT HAD BEEN HAPPENING IN CP CONTROLLED TOWNS SUCH AS BOKSBURG AND CARLTONVILLE WAS THAT ITS ENFORCEMENT HAD DEMONSTRATED THAT THERE WAS NO GOING BACK TO OLD STYLE APARTHEID. PIK SAID THAT THE SAG WERE UNDECIDED AS BETWEEN REPEALING THE ACT OR LEAVING IT TO LOCAL CHOICE. HE WAS NOT SURE THAT BOKSBURG AND CARLTONVILLE HAD YET SIGNIFICANTLY HELPED THE NATIONAL PARTY. THE REAL PAIN WOULD ONLY COME IN A YEAR'S TIME WHEN THE CP MUNICIPALITIES CAME TO COLLECT TAXES:

F) THE SECRETARY OF STATE RAISED THE INDABA. PIK SAID THAT THE SAG'S COMPLAINT WAS THAT IT HAD NOT BEEN REPRESENTATIVE OF ALL THE PARTIES. NOR COULD THEY APPROVE AN ARRANGEMENT WHICH OFFERED A SOLUTION TO ONLY PART OF SOUTH AFRICA NOT ON THE WHOLE. THE SECRETARY OF STATE SUGGESTED THAT IT WAS A MISTAKE TO INSIST ON UNIFORM SOLUTIONS. NOT ALLOWING FOR DIVERSITY AND VARIATION. SO WHY NOT GIVE THE INDABA A TRY AND SEE HOW IT WORKED? PIK SAID THAT THE SAG HAD NEVER FORMALLY REJECTED THE INDABA. BUT THERE WERE DANGERS IN APPEARING TO BEHAVE AS IF THERE WERE ONLY ONE, TWO OR THREE PARTIES IN SOUTH AFRICA. THE SAG COULD NO MORE AFFORD TO DEAL ONLY WITH INKATHA THAN WITH THE ANC OR PAC. PIK WANTED A CONSTITUTION FOR THE WHOLE OF SOUTH AFRICA. SIR ROBIN RENWICK POINTED OUT THAT THE INDABA PROPOSALS WERE FOR A SOLUTION TO THE PROBLEMS OF ONE REGION, AND DID NOT PURPORT TO BE NATIONAL:

G) THERE WAS SOME DISCUSSION OF HOW THE QUOTE INDEPENDENT UNQUOTE HOMELANDS MIGHT BE INCORPORATED INTO A FUTURE CONSTITUTIONAL STRUCTURE FOR SOUTH AFRICA. PIK ARGUED THAT ETHNICITY WAS STILL VERY STRONG. THE EVENTUAL SOLUTION MIGHT BE PARTLY CONFEDERAL AND PARTLY FEDERAL, WITH BOTSWANA, LESOTHO, SWAZILAND AS WELL AS THE INDEPENDENT HOMELANDS FORMING PART OF THE UNITED STATES OF SOUTHERN AFRICA. HE KNEW OF ELEMENTS IN THE BLS WHO WERE WORRIED THAT THE DISAPPEARANCE OF APARTHEID

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WOULD BE THE BIGGEST DANGER TO THEIR INDEPENDENT STATUS.

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TO IMMEDIATE CAPE TOWN

TELNO 104

OF 171200Z MARCH 89

INFO IMMEDIATE UKMIS VIENNA, WASHINGTON, MOSCOW, PRETORIA

MY TWO IPTS (NOT TO ALL): PIK BOTHA'S VISIT: NPT

1. THE SECRETARY OF STATE TOLD BOTHA THAT IT WAS VERY IMPORTANT THAT SOUTH AFRICA SHOULD ACCEDE TO THE NPT. OTHERWISE THERE WAS A REAL RISK THAT SOUTH AFRICA WOULD BE EXPELLED FROM THE IAEA. WE WOULD BE WILLING TO ORGANISE ANOTHER QUADRILATERAL MEETING.

2. BOTHA SAID THAT HE HAD NOT FOCUSED ON THIS ISSUE SINCE LAST YEAR. THERE HAD BEEN OTHER, HIGHER PRIORITIES. THE MAIN OBSTACLE WAS US LEGISLATION. IF SOUTH AFRICA SIGNED THE NPT, THE AMERICANS WOULD NOT BE ABLE TO COMPLY WITH THEIR OBLIGATIONS. SIR ROBIN RENWICK URGED THAT THE MATTER SHOULD NOT BE LET DRIFT UNTIL THE IAEA GENERAL CONFERENCE. IT WOULD BE DIFFICULT TO ADVANCE WITHOUT SOUTH AFRICAN SIGNATURE. THE SAG SHOULD SIGN AND THEN SEE IF THE AMERICANS COULD AMEND THEIR LEGISLATION.

3. PIK SAID THAT HE HAD HOPED THAT PRESSURE WOULD HAVE COOLED WITH THE MORE RELAXED ATMOSPHERE IN SOUTHERN AFRICA. IT WOULD NOT BE CATASTROPHIC IF SOUTH AFRICA WERE EXPELLED. SIR ROBIN RENWICK SAID THAT WE WERE OPPOSED TO FURTHER SOUTH AFRICAN ISOLATION. SOUTH AFRICAN EXPULSION WOULD ALSO BE BAD FOR THE IAEA.

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DEPT OF ENERGY (MR AGRELL)

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TO IMMEDIATE CAPE TOWN

TELNO 103

OF 171200Z MARCH 89

AND TO IMMEDIATE UKMIS NEW YORK

INFO IMMEDIATE PRETORIA, WASHINGTON, MOSCOW, HARARE, LUANDA

INFO IMMEDIATE MAPUTO, LAGOS, LILONGWE

INFO PRIORITY GABORONE, NAIROBI, LUSAKA, ADDIS ABABA, OTTAWA

INFO PRIORITY CANBERRA, EC POSTS

FROM PRIVATE SECRETARY

MIPT: PIK BOTHA'S VISIT: ANGOLA/NAMIBIA

1. THE PRIME MINISTER EMPHASISED TO PIK BOTHA THE GREAT IMPORTANCE OF THE NAMIBIA SETTLEMENT. IT MUST BE STRICTLY OBSERVED BY ALL THE PARTIES TO IT.
2. PIK BOTHA TOLD THE PRIME MINISTER AND SECRETARY OF STATE THAT HE WAS CAUTIOUS ABOUT MAKING PREDICTIONS AFTER SOUTH AFRICA HAD GOT THE RHODESIA ELECTIONS IN 1980 SO BADLY WRONG. HE THOUGHT THAT SWAPO WOULD GET OVER 50 PER CENT BUT DOUBTED IT WOULD REACH TWO-THIRDS OF THE VOTE. SWAPO WAS TRYING TO EXTEND ITS CONTACTS WITH SOUTH AFRICA. NUJOMA HAD RECENTLY MET THE SOUTH AFRICAN AMBASSADOR IN BONN AND HAD ALSO BEEN PRESENT AT A MEETING WITH PRESIDENT KUANDA AND A SENIOR SOUTH AFRICAN OFFICIAL LAST WEEK.
3. PIK BOTHA COMPLAINED TO BOTH THE PRIME MINISTER AND SECRETARY OF STATE THAT THE UNITED NATIONS SECRETARY GENERAL HAD RECENTLY ISSUED A CIRCULAR ASKING FOR FURTHER FUNDS FOR THE NAMIBIA INSTITUTE AND THE COUNCIL OF NAMIBIA. THESE FUNDS WERE EXCLUSIVELY FOR THE BENEFIT OF SWAPO. IT WAS FLATLY CONTRARY TO THE TERMS OF THE AGREEMENT FOR THE UNITED NATIONS TO CONTINUE TO SHOW PARTIALITY FOR ONE PARTY. UNLESS THE COLLECTION OF SUCH FUNDS WAS STOPPED PROMPTLY, SOUTH AFRICA MIGHT HAVE TO CALL A TEMPORARY HALT TO THE PROCESS OF IMPLEMENTING THE NAMIBIA AGREEMENT.
4. THE SECRETARY OF STATE TOLD BOTHA, THAT IT WAS VERY IMPORTANT THAT SOUTH AFRICA SHOULD NOT BE TEMPTED INTO DELAYING OR DE-RAILING THE TIMETABLE FOR IMPLEMENTATION OF THE UN PLAN. TO DO SO WOULD HAVE VERY SERIOUS CONSEQUENCES IN TERMS OF RENEWED SANCTIONS PRESSURE. CONVERSELY, PROVIDED THE UN PLAN KEPT STEADILY ON TRACK THIS WOULD BOLSTER OUR CASE AGAINST FURTHER SANCTIONS. SUCCESS OVER THE FIRST SIX MONTHS WOULD BE A GREAT HELP AT CHOGM. WE FOR OUR PART WOULD ALSO BE PUTTING

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ACROSS TO THE AFRICANS AND TO SWAPO THE BALANCED MESSAGE THAT ELECTIONS IN NAMIBIA MUST BE FREE AND FAIR AND THAT SWAPO TOO MUST STICK FAITHFULLY TO THE PROVISIONS OF THE UN PLAN.

5. PIK BOTHA SAID THAT HE HAD ENDURED MORE PAIN AND TROUBLE OVER NAMIBIA THAN ANY OTHER ISSUE. IT WAS ESSENTIAL THAT THE IMPARTIALITY PACKAGE SHOULD BE IMPLEMENTED FULLY. THIS WAS NOT AN ISSUE ON WHICH HE COULD AFFORD TO APPEAR WEAK. HE WANTED TO AVOID SITUATIONS IN WHICH THE WRECKERS WERE HANDED AMMUNITION BY THE UN SECRETARY GENERAL (ACCOMPANYING DFA OFFICIALS IMPLIED THAT THE SADF, MINISTERS SUCH AS MALAN, AND THE ADMINISTRATOR GENERAL WERE VERY WORKED UP ABOUT THE SECRETARY GENERAL'S APPEAL FOR GENEROUS DONATIONS TO THE UN FUND FOR NAMIBIA, GENERAL ACCOUNT, UN TRUST FUND FOR THE NATIONHOOD PROGRAMME FOR NAMIBIA, AND THE TRUST FUND FOR UNIN: THEY WERE ARGUING THAT SUCH MONIES WENT DIRECT TO SWAPO).

6. WE EXPLAINED THAT THE IMPARTIALITY PACKAGE PROVIDED THAT THE UN SHOULD NOT GIVE FUNDS TO SWAPO OR ANY OTHER PARTY DURING THE TRANSITION PERIOD (THIS HAD BEEN ACCEPTED BY SWAPO), THAT THE UN COUNCIL FOR NAMIBIA SHOULD REFRAIN FROM ENGAGING IN ALL PUBLIC ACTIVITIES, AND THAT THE SECRETARY GENERAL SHOULD INITIATE A REVIEW OF ALL PROGRAMMES ADMINISTERED BY ORGANS OF THE UN WITH RESPECT TO NAMIBIA TO ENSURE THAT THEY WERE ADMINISTERED IMPARTIALLY. THIS DID NOT MEAN, AS PIK BOTHA'S PRIVATE SECRETARY ATTEMPTED TO ARGUE, THAT ALL ACTIVITY HAD TO CEASE.

7. SIR ROBIN RENWICK SUGGESTED THE SOUTH AFRICANS SHOULD TAKE THIS UP WITH THE UN SECRETARY GENERAL. BEUKES (DEPUTY DIRECTOR GENERAL, DFA) SAID THAT IT WOULD BE HELPFUL IF WE WOULD ALSO SPEAK TO THE UN SECRETARIAT, ESPECIALLY GIVEN THE LEGACY OF SOUTH AFRICAN SUSPICION OF UN ACTIVITIES IN SUPPORT OF SWAPO.

8. UKMIS NEW YORK: WE HAVE SINCE SEEN YOUR TELNO 353 AND CAPE TOWN TELNOS 137 AND 138. OBVIOUSLY THIS IS PRIMARILY FOR THE SOUTH AFRICANS TO SORT OUT WITH THE UN SECRETARIAT. BUT IT WOULD BE HELPFUL IF YOU WOULD POINT OUT TO AHTISAARI THE IMPORTANCE OF THE UN AVOIDING GIVING AMMUNITION TO THOSE IN THE SADF AND ELSEWHERE WHO DO NOT WANT IMPLEMENTATION TO GO AHEAD SMOOTHLY.

9. PIK BOTHA ALSO STRESSED THE IMPORTANCE OF SWAPO DETAINEES BEING ALLOWED TO RETURN TO NAMIBIA. THIS WAS PART OF THE DEAL. SOUTH AFRICA HAD NO HELP ON THIS FROM THE WEST (FAIRWEATHER PUT HIM RIGHT ON THIS). BEUKES SAID THAT IT WOULD BE HELPFUL IF WE COULD MAKE ANOTHER PUSH ON THIS ISSUE.

10. THERE WAS SOME DISCUSSION OF OBSERVER MISSIONS IN WINDHOEK, WITH DFA OFFICIALS TAKING A MORE POSITIVE LINE THAN PIK. THE SECRETARY OF STATE SAID THAT WE WOULD BE OPENING A LIAISON

OFFICE IN WINDHOEK. HE HOPED THE SAG WOULD BE READY TO BE ACCOMMODATING WITH OTHERS WHO WISHED TO DO LIKEWISE. PIK POINTED OUT THAT THERE WERE ONLY 470 HOTEL BEDS IN WINDHOEK. SCR 435 DID NOT OBLIGE HIM TO LET IN THE WHOLE WORLD. APART FROM COUNTRIES WITH DIPLOMATIC RELATIONS WITH SOUTH AFRICA, HE WOULD BE POSITIVE AS REGARDS THE RUSSIANS (AS A PERMANENT MEMBER OF THE SECURITY COUNCIL) AND HE HAD INVITED THE OAU TO BE REPRESENTED. THE FLS HAD NO FORMAL STATUS, BUT THE OAU COULD DESIGNATE THE FLS AS THEIR REPRESENTATIVE IF THEY WISHED. (IT WAS EVIDENT THAT DFA OFFICIALS WANTED TO TAKE A MORE POSITIVE LINE BUT IT MAY BE THAT AN OAU FIGLEAF WILL BE NEEDED FOR THOSE LIKE THE FLS AND NIGERIA WHO WANT TO OBSERVE THE IMPLEMENTATION PROCESS: WE POINTED TO THE ADVANTAGES OF THE AFRICANS HAVING FIRST HAND ACCOUNTS OF WHAT WAS GOING ON.)

11. OTHERWISE, PIK ARGUED THAT SOUTH AFRICA HAD EVERY INTEREST IN SUCCESSFUL IMPLEMENTATION. THE SAG WOULD DO BUSINESS WITH WHOEVER WON THE ELECTION (THE SECRETARY OF STATE SAID THAT OUR POSITION WAS THE SAME). IF THERE WAS A SWAPO GOVERNMENT (THOUGH HE REPEATED HIS DOUBTS WHETHER SWAPO COULD WIN A TWO-THIRDS MAJORITY) THE ECONOMIC IMPERATIVES AND SOUTH AFRICAN CONTROL OF WALVIS BAY WOULD MAKE FOR PRAGMATISM. HIS OWN VIEW WAS THAT AN INDEPENDENT NAMIBIA WOULD EVENTUALLY WANT TO BE INCLUDED IN THE CUSTOMS UNION AND IN THE RAND ZONE. SWAPO HAD BEEN MAKING REASSURING NOISES ABOUT NATIONAL RECONCILIATION AND NOT WANTING A WHITE EXODUS. NUJOMA HAD ALSO ASSURED THE SOUTH AFRICANS IN LUSAKA LAST WEEK THAT SWAPO WOULD BE NORTH OF THE 16TH PARALLEL BY 1 APRIL, AND AHITISAARI WAS ARRANGING A DINNER IN NEW YORK NEXT WEEK AT WHICH A SOUTH AFRICAN TEAM WOULD MEET THE SWAPO REPRESENTATIVE TO THE UN.

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FROM PRIVATE SECRETARY

PIK BOTHA'S VISIT TO LONDON

1. THE SOUTH AFRICAN FOREIGN MINISTER HAD AN HOUR AND A HALF'S TALK WITH THE PRIME MINISTER ON THE AFTERNOON OF 15 MARCH. IN THE EVENING, HE HAD TALKS (PART OF WHICH WERE TETE A TETE) AND A WORKING DINNER WITH THE SECRETARY OF STATE. DISCUSSION COVERED A WIDE RANGE OF INTERNAL AND REGIONAL ISSUES AS WELL AS SOUTH AFRICAN ACCESSION TO THE NPT.
2. THE PRIME MINISTER AND SECRETARY OF STATE PRESSED IN PARTICULAR FOR THE UNCONDITIONAL RELEASE OF NELSON MANDELA. THERE WOULD ALSO HAVE TO BE WIDER NEGOTIATIONS BETWEEN REPRESENTATIVES OF ALL RACIAL GROUPS ABOUT THE POLITICAL FUTURE. MEANWHILE, WE CONTINUED TO OPPOSE SANCTIONS. BUT PRESSURE FOR MORE SANCTIONS WOULD GROW, PARTICULARLY IN THE UNITED STATES, AND WOULD BECOME HARDER TO RESIST UNLESS WE COULD SHOW THAT THERE WAS A BETTER WAY OF ACHIEVING PROGRESS IN SOUTH AFRICA.
3. PIK BOTHA ACKNOWLEDGED THE CASE FOR RELEASING MANDELA. BUT THERE WERE HESITATIONS IN THE SOUTH AFRICAN CABINET AT THE POSSIBLE IMPLICATIONS FOR THE SECURITY SITUATION. IN HIS OWN PRESENTATIONS, BOTHA PLACED THE EMPHASIS ON REGIONAL ISSUES. HE HANDED OVER A PROPOSAL FOR A SOUTHERN AFRICAN MARSHALL PLAN. HE MADE CLEAR THAT THE SAG WOULD BE READY TO COOPERATE PRAGMATICALLY WITH A SWAPO GOVERNMENT IN NAMIBIA (PIK THOUGHT SWAPO WOULD GET OVER 50 PERCENT BUT DOUBTED WHETHER THEY WOULD ACHIEVE TWO THIRDS OF THE VOTE), BUT WAS CONCERNED THAT THE UNITED NATIONS WERE VIOLATING THE IMPARTIALITY PACKAGE BY CANVASSING FOR FUNDS FOR UNIN AND THE COUNCIL FOR NAMIBIA. BOTHA SAW MOZAMBIQUE AS THE NEXT PRIORITY FOR SOUTH AFRICA.
4. THERE WAS LITTLE NEW OF SUBSTANCE IN WHAT BOTHA HAD TO SAY. HE CONFIRMED THAT THE CURRENT IMPASSE BETWEEN PRESIDENT BOTHA AND THE NATIONAL PARTY COULD WELL CONTINUE FOR SOME TIME. THE MARSHALL PLAN IDEA HAS BEEN FLOATED BEFORE. BUT THIS WAS A USEFUL OPPORTUNITY FOR THE PRIME MINISTER AND SECRETARY OF STATE

PAGE 1

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TO PRESS THE CASE FOR FASTER INTERNAL CHANGE AND REFORM IN SOUTH AFRICA, TO REMIND PIK THAT THE SAG COULD NOT AFFORD TO REST ON THEIR OARS, SINCE THE SANCTIONS ISSUE HAD NOT GONE AWAY, AND (IN ADVANCE OF THE PRIME MINISTER'S VISIT TO THE AREA) TO STRESS THE GREAT IMPORTANCE OF THE ANGOLA/NAMIBIA SETTLEMENT AND THE NEED FOR A POSITIVE AND UNIFIED SOUTH AFRICAN REGIONAL POLICY, WITH NO SUPPORT FOR RENAMO AND STRICT IMPLEMENTATION OF THE UN PLAN FOR NAMIBIAN INDEPENDENCE.

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Foreign and Commonwealth Office

London SW1A 2AH

21 April 1989

Jean Chalker,

Prime Minister's Meeting with the South African
Finance Minister, 24 April

Barend du Plessis is calling on the Prime Minister at 1600 hrs on 24 April. The Foreign Secretary and Mrs Chalker will see him on 25 April. He is coming on a so-called private visit for the sake of cover. He will also meet a number of senior British businessmen and bankers at a lunch hosted by Lloyds of London earlier on 24 April.

We expect to receive today a telegram from Sir Robin Renwick setting the scene for Mr du Plessis' visit.

Our interest in Mr du Plessis relates less to his current position than to his likely influential role in a future South African Government, following P W Botha's departure.

The Prime Minister may wish to question Mr du Plessis on his view of prospects for a resumption of the reform process in South Africa after the next general election (now expected in September), and underline the importance of further reform measures to international opinion. She could impress on him that in the absence of significant reforms pressure for more sanctions, especially in the US and the EC, may be uncontainable.

Sir Robin Renwick has reported that Mr du Plessis is personally in favour of Mr Mandela's release after the next elections. The Prime Minister could emphasise the serious consequences for South Africa should Mr Mandela die in jail. It would be right to hand to Mr du Plessis a copy (enclosed) of the agreed UK/FRG speaking note which the Prime Minister passed to Pik Botha last month, emphasising its sensitivity.

Should Mr du Plessis raise economic matters, and in particular South Africa's debt repayments, the Prime Minister may like to point out that this is a matter for the banks. The banks are watching the situation in South Africa closely including the reform process and will be influenced by their assessment of South Africa's future prospects. (ECGD have recently assessed the situation and are not prepared to increase further cover.)

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On Namibia, it may be a bit clearer by 24 April whether SWAPO will withdraw their forces to South Africa's satisfaction. The Prime Minister could emphasise that we have been urging on all sides the importance of SWAPO moving north of the sixteenth parallel in Angola so that South African forces can go back to base quickly. We strongly support the United Nations Plan and are urging SWAPO to adhere to it. The South African Government must also continue to stick to the Plan and not try to take advantage of SWAPO's initial blunder. It would be a very serious step for South Africa to stop the clock unilaterally. The fact that it was SWAPO who originally breached the Plan would thereby be quickly forgotten.

I enclose a personality note on Mr du Plessis.

Yours ever,

Richard Gozney

(R H T Gozney)
Private Secretary

C D Powell Esq
PS/10 Downing Street

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SECRET AND PERSONAL

AGREED UK-FRG RESPONSE TO POSSIBLE RELEASE OF
NELSON MANDELA

- We believe that Mandela's release is in South Africa's own interests.
- In our assessment it would create a new and improved climate of benefit to South Africa internally and in her relations with the outside world.
- It would also reinforce our joint stand against sanctions and other restrictive measures.
- And it would make it easier for us to play a helpful role over the problems facing South Africa in its dealings with the banks over bearer bonds.
- Looked at realistically it would not on its own lead to the dismantling of any sanctions.
- But if the South African Government were to build on Mandela's release to launch a dialogue between all political groups in South Africa, we would then see what could be done to meet South Africa's concerns on sanctions (although we could not give advance assurances affecting others).

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RECORD OF MEETING BETWEEN THE SECRETARY OF STATE AND THE SOUTH AFRICAN MINISTER OF FINANCE, PRETORIA, 29 JULY

Present:

Rt Hon Sir Geoffrey Howe QC MP
 Sir Patrick Moberly
 Mr EAJ Fergusson
 Mr CR Budd
 Mr DI Lewty

Mr Barend du Plessis
 Dr G de Kock
 Notetaker

1. After introductory courtesies (during which the Minister said that his house had burned down the previous evening), Mr du Plessis said that both unemployment and inflation in South Africa would be difficult to overcome, for two reasons. First, population growth: the combination of first world medical facilities and third world fertility rates was a potent recipe. Secondly, South Africa suffered considerable under-utilisation of both capital and labour because of the billions of Rands sterilised as a result of sanctions or the threat of them. These required the SAG to maintain oil stocks of 6-8 months consumption (and the oil embargo meant that they paid a higher price for the oil); to develop their own arms industry at inevitably high cost; and to develop nuclear power (for both ecological and economic reasons) by themselves. If these funds could be freed for productive use, they would be used for black economic development. White education standards would in any case need to be cut to pay for the improvement of black education. This was difficult to sell politically, especially at a time when people's responses were likely to be conditioned by a pessimistic view of the future. All this meant that more sanctions would mean a further deterioration in the South African economy, to the detriment of the sub-Saharan Africa as a whole.
2. The Secretary of State said he had personal experience of British companies deciding to run down their South African operations because of the political risk constituted by an unreformed South Africa. This loss of confidence had greatly increased over the last eighteen months. To abate the pressure for further measures the SAG must take the fundamental, even if risky, steps necessary to engage black political leaders in dialogue. His talks had shown that the SAG had realised this, but had not yet gone far enough. The lack of trust in the SAG, caused by eg the 19 May raids while the EPG were in South Africa, meant that more was demanded of the SAG than the blacks.

3. Mr du Plessis said there was a growing consensus in South Africa, albeit one not shared by the ANC, that apartheid had to be dismantled (though the lack of an electoral mandate for doing so made it more difficult) and that one man one vote was not the answer. When these two views met, there would be a negotiated settlement. But so long as group representation continued to be regarded as a form of apartheid, there could be no progress. Yet the Commonwealth could accept a white Minister for Aboriginal Affairs in Australia, so it should be able to realise that recognition of group interests was essential for South Africa. Protection of minority cultural values must be possible on a long-term basis, while still allowing freedom of movement. The ANC stood aside from this consensus because their interest was in destroying society through violence leading to a seizure of power. They could not abandon violence because their political clout depended on it. A PFP MP had been told by a local ANC leader that even Mandela would be killed if after being released he agreed to talk to Botha. The SAG could not accept the notion that ANC violence equated to corresponding SAG "violence".

4. The Secretary of State said he understood the difficulties of applying one man one vote in a unitary state in South Africa. The problem of minorities was difficult all round the world. Hence the many different arrangements in the countries concerned, some entrenched, some tacit. But he had to say that to compare the residual Aboriginal community in Australia or the Eskimos in Canada with the black majority in South Africa showed a gap in comprehension of unbelievable size. The construction of a new structure for South Africa would need the participation of all blacks and the ANC commanded much support among them. Some of its leaders were Marxists, who were to be found in all nationalist movements, but others like Mandela, were not. Mr du Plessis asked why Mandela did not say so. The Secretary of State said he had accepted the EPG's negotiating concept. Unless the SAG enabled the ANC to expose themselves to the wider dialogue, their only weapon would remain a combination of intimidation and radicalisation of the young. The tragedy was that there was a substantially moderate element in the ANC which the SAG needed the courage to bring out. It was sad that whilst the free enterprise philosophy was gaining ground around the world (eg in the report of the UNGA Special Session on Africa) Mr Sam Motsuenyane had told him that if the SAG did not move, even NAPCOC would have no alternative to stop talking and accept sanctions. The SAG were in danger of frightening themselves and their electorate by painting a too lurid picture of the ANC. Mr du Plessis said the SAG had declared many times that it would meet the ANC if it renounced violence and its policy of trying to make South Africa war-weary, known locally as the "Mugabe" syndrome. To offer suspension of violence was not enough. The Secretary of State said there was no future in wrangling over words like "cessation" or "suspension": in any dispute either side reserved the right to revert to its previous position if talks broke down. Words could not guarantee the future.

5. Dr de Kock said that whilst the prospect of further sanctions was not irrelevant or unimportant, the Central Bank saw the current de facto sanctions as more damaging to sub-Saharan Africa than any trade sanctions. South Africa had to run a current account surplus for the reasons the Minister had described earlier, and to finance an outflow of capital despite strict exchange controls and the standstill on debt repayment. South Africa was bleeding to death when it needed to be growing at 4-5% per annum. The spark of investor confidence necessary for growth was missing. This was bad for all, but especially for the blacks in South Africa and her neighbours. The Secretary of State said the spark of confidence could only be struck by the SAG embarking on political reform. There were risks, but the world would welcome it. Mr du Plessis asked whether, if the SAG did so, they could count on financial support from the UK and the West. The Secretary of State said the world would respond spontaneously.

Pretoria
July 1986

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MY TELNO 82: CONTACT WITH SOUTH AFRICAN MINISTERS

1. I CALLED ON BAREND DU PLESSIS THIS MORNING TO TELL HIM THAT THE PRIME MINISTER AND SECRETARY OF STATE WOULD WELCOME THE CHANCE FOR A DISCUSSION WITH HIM IF HE COULD PASS THROUGH LONDON IN APRIL. I GAVE HIM POSSIBLE TIMES ON 10 AND 12 APRIL. BAREND DU PLESSIS SAID THAT HE WOULD BE VERY KEEN TO DO THIS. ON THE POSSIBLE DATES, 1530 HOURS ON 10 APRIL WOULD SUIT HIM BEST FOR THE MEETING WITH THE PRIME MINISTER, WITH A MEETING WITH THE SECRETARY OF STATE AT 1630 ON THAT DAY.

2. WE AGREED THAT THIS WOULD NEED CAREFUL HANDLING. I SUGGESTED THAT WE SHOULD ARRANGE FOR LLOYDS OR THE INSTITUTE OF DIRECTORS TO INVITE HIM TO LONDON FOR A PRIVATE LUNCH ON THAT DAY. HE WILL ALSO WANT TO HAVE SOME CONTACT WITH THE BANKS. HE WOULD NOT WISH THE MEETING WITH THE PRIME MINISTER TO BE ANNOUNCED IN ADVANCE AND WOULD SEE SOME ADVANTAGE IN IT BEING KEPT CONFIDENTIAL, IF THAT IS POSSIBLE. OTHERWISE THIS COULD INCREASE SPECULATION ABOUT THE HANDLING OF THE DEBT PROBLEM. GIVEN THE UNEASY SITUATION WHICH IS LIKELY TO BE CREATED WHEN THE PRESIDENT TRIES TO RETURN TO HIS OFFICE, AT ANY RATE FOR SOME TIME, BAREND DU PLESSIS SAID THAT HE HOPED THE PRIME MINISTER WOULD MENTION HER DESIRE TO HAVE A TALK WITH HIM WHEN SHE SEES PIK BOTHA IN LONDON ON 15 MARCH. IT SHOULD NOT BE MENTIONED TO OTHER MEMBERS OF THE SOUTH AFRICAN GOVERNMENT MEANWHILE. BUT HE WILL MAKE HIS PLANS ACCORDINGLY.

3. BAREND DU PLESSIS SAID THAT HE HAD JUST BEEN OBLIGED TO STAGE ANOTHER SEMINAR FOR HIS CABINET COLLEAGUES ON THE REALITIES OF SOUTH AFRICA'S ECONOMIC SITUATION. HE HAD TOLD THEM THAT, BECAUSE

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IF THE NEED TO MAINTAIN A BALANCE OF PAYMENTS SURPLUS ADEQUATE TO SERVICE THE DEBT AND BECAUSE SOUTH AFRICA WAS NO LONGER ABLE TO ATTRACT EXTERNAL CAPITAL, GROWTH IN GDP WOULD HAVE TO BE REINED BACK FROM ABOUT THREE PER CENT TO TWO PER CENT OR LESS THIS YEAR. HE PUSHED THROUGH THE CABINET YESTERDAY A FURTHER RISE IN INTEREST RATES (THE PRIME LENDING RATE NOW STANDS AT 19 PER CENT) TO HELP COOL DOWN THE ECONOMY. HE POINTED OUT THAT SOUTH AFRICA HAD PUT UP A REMARKABLE PERFORMANCE IN SERVICING THE DEBT AND REPAYING CAPITAL OVER THE PAST THREE YEARS, WHILE STILL ACHIEVING A RESUMPTION OF GROWTH (2.5 PER CENT OF G.P. IN 1987 AND 3 PER CENT IN 1988). THERE WAS GOING TO BE A DIFFICULT PERIOD AHEAD IN MANAGING DEBT REPAYMENTS, INCLUDING THE REPAYMENT OF DOLLARS 1.8 BILLION OF BEARER BONDS OUTSIDE THE STANDSTILL 'NET', OVER THE NEXT TWO YEARS. WITH TIGHT FISCAL AND A TIGHTENING OF MONETARY POLICY, HE BELIEVED THIS COULD BE MANAGED. BUT SOUTH AFRICA COULD NOT GO ON LIVING INDEFINITELY WITHOUT ACCESS TO EXTERNAL CAPITAL. THE ECONOMY HAD THE CAPACITY TO GROW MUCH FASTER AND THIS WAS ESSENTIAL TO PROVIDE JOBS AT A RATE WHICH WOULD MATCH THE POPULATION INCREASE (NOW RUNNING AT THREE QUARTERS OF A MILLION PEOPLE PER YEAR).

4. I SAID THAT THE PRIME MINISTER WOULD BE READY TO DISCUSS THESE ISSUES WITH HIM. WE AGREED THAT SOUTH AFRICA COULD NOT PROSPER IN A STATE OF SIEGE. IT WAS ESSENTIAL THAT THE COUNTRY SHOULD NOT RENEGE ON ITS DEBTS (BAREND DU PLESSIS AGREED). NEW CAPITAL INFLOWS WOULD ONLY BE POSSIBLE IF THE NEW LEADERSHIP DEMONSTRATED THAT THEY WERE PREPARED TO MOVE AHEAD WITH REAL NEGOTIATIONS AND INTERNAL REFORM.

5. I EXPLAINED THAT AT THE NEXT COMMONWEALTH HEADS OF GOVERNMENT CONFERENCE IN KUALA LUMPUR, WE WERE LIKELY TO BE CONFRONTED WITH DEMANDS FROM OTHER COUNTRIES THAT A BAN SHOULD BE IMPOSED ON EXPORT CREDITS FOR SOUTH AFRICA. WE WOULD NOT ACCEPT THAT (ANY MORE THAN THE GERMANS OR JAPANESE) BUT IT WAS IMPORTANT THAT SOUTH AFRICAN MINISTERS SHOULD REALISE THAT WE HAD TO FIGHT SANCTIONS BATTLES EVERY DAY AND THAT EFFORTS HAD TO BE DEVOTED TO STIFFENING THE RESOLVE OF CHANCELLOR KOHL AND OF THE NEW US ADMINISTRATION. THE ANGOLA/NAMIBIA AGREEMENT GAVE US A STRONG POSITION FROM WHICH TO RESIST DEMANDS FOR FURTHER SANCTIONS. IT WAS ESSENTIAL THAT THERE SHOULD BE NO RENEGING ON THAT AGREEMENT. BUT IT WAS NOT GOING TO BE POSSIBLE TO CHANGE SOUTH AFRICA'S POSITION VIS A VIS THE EXTERNAL WORLD WITHOUT MUCH FASTER PROGRESS INTERNALLY.

I ADDED THAT BAREND DU PLESSIS WOULD FIND THE PRIME MINISTER CONCERNED ABOUT THE FAILURE TO MAKE PROGRESS WITH BUTHELEZI AND, ESPECIALLY, THE FAILURE OF THE SOUTH AFRICAN GOVERNMENT TO NERVE ITSELF TO RELEASE MANDELA. BAREND DU PLESSIS SAID THAT THERE WAS AN UNCERTAIN PERIOD AHEAD. HE HAD URGED THE PRESIDENT TO GO FOR AN EARLY ELECTION. THE PRESIDENT WAS NOW HORS DE COMBAT AND HIS MINISTERS DID NOT KNOW WHEN AND IN WHAT CONDITION HE WOULD RETURN. I SAID THAT OUR CONCERN REMAINED THAT IF MANDELA DIED IN PRISON, THE CONSEQUENCES FOR SOUTH AFRICA WOULD BE EXTREMELY GRAVE AND PROBABLY IRREVERSIBLE. THERE WOULD BE AN INTERNAL EXPLOSION, WHICH NO DOUBT WOULD BE REPRESSED, AND FURTHER ISOLATION. WHEN I RAISED THIS MATTER WITH THE SECURITY CHIEFS, THEY SAID THAT RELEASING MANDELA WOULD GIVE A NEW IMPETUS TO THE REVOLUTION. BUT I DID NOT BELIEVE THAT THEY UNDERSTOOD THE ECONOMIC CONSEQUENCES OF NOT RELEASING HIM.

7. BAREND DU PLESSIS SAID THAT HE AGREED. IN HIS VIEW, SOMETHING HAD TO BE DONE TO DEFUSE THIS PROBLEM. HE SPENT MUCH OF HIS TIME TRYING TO EDUCATE OTHER MEMBERS OF THE GOVERNMENT IN THE ECONOMIC REALITIES. THE SOUTH AFRICAN GOVERNMENT WAS NEVER GOING TO AGREE TO A TRANSFER OF POWER TO THE ANC AND THEY HAD TO CONTEND WITH THE NEED TO RETAIN THE SUPPORT OF THE WHITE ELECTORATE, THE LESS WELL-OFF MEMBERS OF WHICH REMAINED VERY ATTACHED TO SEPARATE SCHOOLS, RESIDENTIAL AREAS ETC. BUT THEY HAD TO FIND A WAY FORWARD. HE WOULD LOOK FORWARD TO DISCUSSING THIS WITH THE PRIME MINISTER AND WOULD WAIT FOR AN INVITATION TO BE CONVEYED ON 15 MARCH THROUGH PIK BOTHA.

8. I CONCLUDED BY SAYING THAT WE DID NOT WANT TO RAISE ANY UNREALISTIC EXPECTATIONS. THERE WERE WAYS IN WHICH THE EUROPEAN BANKS MIGHT BE ABLE TO HELP OVER THE DEBT PROBLEM. BUT A RETURN OF EXTERNAL INVESTMENT WAS NOT WITHIN OUR POWER TO DECIDE. THAT WOULD ONLY HAPPEN IF WESTERN BANKS AND GOVERNMENTS BELIEVED THAT SOUTH AFRICA HAD MORE CONVINCING PLANS TO DEAL WITH ITS OWN FUTURE.

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NY TTELS 210: VISIT OF BAREND DU PLESSIS

1. BAREND DU PLESSIS CAME TO LUNCH TODAY. HE IS LOOKING FORWARD TO HIS MEETING WITH THE PRIME MINISTER ON 24 APRIL AND WITH YOU ON THE FOLLOWING DAY. HE ATTACHES A LOT OF IMPORTANCE ~~TO~~ THOSE MEETINGS.
2. HE BELONGS TO THE NEW GENERATION OF NATIONAL PARTY LEADERS (48 YEARS OLD, WORKED FOR A TIME WITH IBM AND STUDIED BRIEFLY AT PRINCETON). HE IS MODERN-MINDED AND HAS FEW OF THE IDEOLOGICAL HANG-UPS OF HIS PREDECESSORS. AS FINANCE MINISTER HE HAS GROWN IN AUTHORITY OVER THE PAST FOUR YEARS. HE WAS PREVIOUSLY DEPUTY MINISTER FOR FOREIGN AFFAIRS.
3. IN THE RECENT LEADERSHIP ELECTION HE FAILED BY ONLY SIX VOTES TO DEFEAT F W DE KLERK. THE PARTY SINCE THE ELECTION HAS RALLIED BEHIND DE KLERK AND DU PLESSIS IS UNLIKELY TO CHALLENGE HIM AFTER THE ELECTIONS IN SEPTEMBER. HE WILL, HOWEVER, THEN CLEARLY BE THE SECOND MOST INFLUENTIAL MEMBER OF THE GOVERNMENT, PROBABLY STILL IN HIS PRESENT PORTFOLIO.

4. DU PLESSIS KNOWS THAT THE REPT CRISIS OF 1995 MARKED A FUNDAMENTAL TURNING POINT FOR SOUTH AFRICA. AFTER THE DISTURBANCES OF 1994-95, THERE HAS BEEN A BETTER ECONOMIC PERFORMANCE WITH A 5.9 PERCENT INCREASE IN GDP IN 1997 AND 7 PERCENT IN 1999. THOSE INCREASES ARE PROBABLY UNDER-MEASURED AS A RESULT OF THE EXPANSION OF THE INFORMAL SECTOR TO WHICH, THROUGH DE-REGULATION, DU PLESSIS HAS CONTRIBUTED. BUT GROWTH EVEN AT THIS RATE IS NOT SUSTAINABLE WITHOUT AN INFLOW OF CAPITAL. ACTION HAS HAD TO BE TAKEN TO COOL DOWN THE ECONOMY AS THE GROWTH IN DOMESTIC DEMAND SUCKED IN IMPORTS AND THE RESERVES ARE UNCOMFORTABLY LOW. THE PRIME LENDING RATE HAS BEEN RAISED TO 17 PERCENT. SOUTH AFRICA HAS TO RUN A LARGE TRADE SURPLUS TO FINANCE DEBT REPAYMENTS AND THE CAPITAL OUTFLOW.

5. DU PLESSIS IS ADAMANT THAT SOUTH AFRICA WILL HONOUR ITS DEBTS. IF NECESSARY, TO PROTECT THE BALANCE OF PAYMENTS, THEY WOULD HAVE TO CONSIDER INTRODUCING MORE DIRECT IMPORT CONTROLS, BUT DU PLESSIS DOES NOT WANT TO GO DOWN THAT ROAD. HE HAS FOUGHT A SERIES OF BATTLES TO HOLD DOWN GOVERNMENT EXPENDITURE, THOUGH HE WAS UNABLE TO PREVENT A SUBSTANTIAL INCREASE BEING GIVEN TO THE HORDES OF CIVIL SERVANTS FOR ELECTORAL REASONS LAST YEAR. HE HAS JUST PUSHED THROUGH A PRETTY TOUGH BUDGET FOR AN ELECTION YEAR.

6. WITHIN THE NEXT YEAR SOUTH AFRICA WILL HAVE TO REACH A FURTHER AGREEMENT WITH ITS CREDITORS. HALF THE COUNTRY'S DOLLARS 22 BILLION DEBT IS HELD WITHIN A STANDSTILL NET. UNDER THE PRESENT AGREEMENT, SOUTH AFRICA IS COMMITTED TO PAYING INTEREST ON DEBT WITHIN THE NET PLUS REPAYMENT OF THE CAPITAL AT THREE PERCENT PER ANNUM. BECAUSE OF THE 1990-92 BULGE CAUSED BY THE REPAYMENT OF BEARER BONDS OUTSIDE THE NET, SOUTH AFRICA WILL NEED SOME PRACTICAL HELP FROM THE BANKS IN SMOOTHING OUT PAYMENTS IN THAT PERIOD, AS WELL AS THE RENEWAL OF THE EXISTING AGREEMENT. THEREAFTER THE DEBT PROBLEM SHOULD BE REDUCED TO MANAGEABLE PROPORTIONS AS SOUTH AFRICA, VIRTUALLY ALONE AMONG DEVELOPING COUNTRIES, HAS REPAID A SUBSTANTIAL AMOUNT OF CAPITAL (DOLLARS SIX BILLION OVER THE PAST FOUR YEARS).

7. DU PLESSIS SAID THAT HE REALISED THAT SOUTH AFRICA COULD NOT PROSPER WITHOUT REGAINING ACCESS TO EXTERNAL CAPITAL. THE INABILITY TO DO SO WAS LEADING TO CUT-BACKS IN EXPENDITURE ON BLACK EDUCATION AND HOUSING.

9. I SAID THAT AT PRESENT WE HAVE BEEN IN THE FIGHTING MAINLY DEFENSIVE BATTLES AGAINST FURTHER SANCTIONS. THE NEW GOVERNMENT AND LEADERSHIP WOULD HAVE A DEFINITE OPPORTUNITY AFTER THE ELECTIONS IN SEPTEMBER. IT WAS IMPORTANT THAT THIS SHOULD NOT BE WASTED AS, OTHERWISE, SOUTH AFRICA WOULD FIND ITSELF INCREASINGLY ISOLATED. THE REAL DANGER WAS NOT REVOLUTION BUT A SLOW ECONOMIC WASTEWASTE. IRRESPECTIVE OF THE ATTITUDE OF GOVERNMENTS, BANKERS AND MAJOR INDUSTRIAL HOUSES ABROAD WOULD NOT INVEST NEW CAPITAL IN SOUTH AFRICA UNLESS THEY WERE CONVINCED THAT THE SOUTH AFRICAN GOVERNMENT HAD A PLAN TO DEAL WITH THE COUNTRY'S PROBLEMS WHICH HAD SOME CHANCE OF SUCCESS AND THAT PROGRESS WOULD BE MADE WITH NEGOTIATIONS.

9. DU PLESSIS SAID THAT HE WANTED TO SEE A NEW IMPETUS GIVEN TO INTERNAL CHANGE. AT THE SAME TIME ORDER HAD TO BE MAINTAINED: IT WAS THE DISTURBANCES FROM 1976 ON THAT HAD TRIGGERED THE FLIGHT OF CAPITAL. HE HOPES THAT, AFTER THE ELECTIONS, IT WILL BE POSSIBLE TO MAKE PROGRESS WITH NEGOTIATIONS WITH BLACK LEADERS, ESPECIALLY BUTHELEZI, BUT ON THE BASIS OF SHARED SHARING AND CERTAINLY NOT A TRANSFER OF POWER. LIKE EVERY OTHER NATIONAL PARTY MINISTER AND THE LARGE MAJORITY OF THE WHITE ELECTORATE, HE WILL RESIST NEGOTIATIONS WITH THE ANC UNLESS THEY COMMIT THEMSELVES TO CEASE VIOLENCE.

10. THE PRIME MINISTER MAY WISH TO TELL DU PLESSIS THAT AT THE COMMONWEALTH CONFERENCE IN KUALA LUMPUR THE CANADIANS, AUSTRALIANS AND NEW ZEALANDERS ARE LIKELY TO BE PRESSING FOR FURTHER FINANCIAL SANCTIONS, THE NO ROLLING OVER OF THE DEBTS AND THE DENIAL OF EXPORT CREDITS. WE, OF COURSE, WILL OPPOSE THAT (A REFUSAL BY THE BANKS TO EXTEND THE PRESENT ARRANGEMENTS WOULD RESULT IN A DEFAULT, ENTAILING THE LOSS OF OUR INVISIBLE EARNINGS AND VIRTUALLY ALL EXTERNAL INFLUENCE HERE). BUT SOUTH AFRICA'S PROSPECTS WILL DEPEND NOT ONLY ON WHAT WE DO, BUT ALSO ON WHAT OUR KEY ALLIES DO. WE HAVE TO FIGHT MORE BATTLES THAN THE SOUTH AFRICANS REALISE TO KEEP THE US ADMINISTRATION FIRM AGAINST FURTHER CONGRESSIONAL PRESSURES AND TO ENSURE THAT KOHL DOES NOT GIVE WAY TO GENSCHER. OUR ABILITY TO FIGHT OFF FURTHER SANCTIONS AND, IF POSSIBLE, TO CHANGE THE CLIMATE SO FAR AS SOUTH AFRICA IS CONCERNED WILL DEPEND ON (A) SOUTH AFRICA CONTINUING TO HONOUR ITS OBLIGATIONS UNDER THE NAMIBIA SETTLEMENT WHICH, DESPITE THE SWAPO VIOLATIONS, SO FAR IT HAS BEEN DOING: BUT ALSO (B) REAL MOVES AFTER THE ELECTIONS TO GET NEGOTIATION UNDER WAY.

... FLEISS IS WORRIED ABOUT DEVELOPMENTS BECAUSE OF THE
IMPACT SWAPO'S BEHAVIOUR IS HAVING ON THE WHITE ELECTORATE HERE. THE
SOUTH AFRICANS THOUGHT THEY HAD REACHED AN AGREEMENT WHICH WOULD LEAD
TO A RESOLUTION OF THE PROBLEM. HE WAS GRATEFUL FOR THE SUPPORT THEY
HAD RECEIVED FROM US.

12. THE PRIME MINISTER WILL WANT TO EMPHASISE THAT WE DO NOT BELIEVE
THAT IT WILL BE POSSIBLE WITHOUT THE RELEASE OF MANDELA. BUTHELEZI
HAS MADE CLEAR THAT, WHILE HIS POSITION IS VERY DIFFERENT, HE CANNOT
NEGOTIATE WHILE MANDELA REMAINS IN JAIL. OF COURSE THERE ARE PEOPLE
ASSOCIATED WITH RELEASING MANDELA. BUT IF HE IS NOT RELEASED, THE
INTERNATIONAL CAMPAIGN AGAINST SOUTH AFRICA WILL CONTINUE AND
INTENSIFY. IF HE DIED IN PRISON, THE DAMAGE WOULD BE IRREVERSIBLE. DE
KLERK HAS TALKED OF THE NEED FOR NEGOTIATIONS ON A NEW CONSTITUTION.
IF SUCH NEGOTIATIONS WERE OFFERED WITHOUT PRE-CONDITIONS, THAT COULD
HELP TRANSFORM THE SITUATION.

13. DE FLEISS IS MORE ADVANCED IN HIS THINKING THAN DE KLERK. HE IS
WELL AWARE THAT SOUTH AFRICA CANNOT PROCEED IN A STATE OF SEIGE. HE
IS CONCERNED TO BE ABUSED THAT IF THE NEW LEADERSHIP CAN NERVE
THEMSELVES TO TAKE POSITIVE STEPS, WE WILL RESPOND. DE FLEISS DOES
NOT APPEAR TO HAVE RECEIVED THE PAPER THE PRIME MINISTER GAVE TO DE
BOTHA AND I RECOMMEND THAT A COPY SHOULD BE HANDED TO HIM, MAKING
CLEAR THAT THIS IS BEING DONE ALSO WITH THE AUTHORITY OF CHANCELLOR
KOHLE.

14. THE PRIME MINISTER MAY WISH TO ADD THAT SHE WOULD WELCOME THE
CHANCE TO SEE DE KLERK IF HE IS ABLE TO VISIT LONDON PRIVATELY IN
JUNE, BEFORE THE ELECTION CAMPAIGN GETS UNDER WAY. THEREAFTER WE
SHOULD LOOK FORWARD TO FURTHER CONTACT WITH THE SOUTH AFRICAN
GOVERNMENT AFTER THE ELECTIONS. THE NEW GOVERNMENT WILL HAVE A WINDOW
OF OPPORTUNITY. IT IS IMPORTANT THAT THE OPPORTUNITIES WHICH WILL
THEN BE OPENED UP SHOULD NOT BE LOST, AS THEY ARE UNLIKELY TO OCCUR
AGAIN.

15. FCO PLEASE ADVANCE TO NO 17 DOWNING ST.

RENWICK

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INFO ROUTINE HARARE, GABORONE, MASERU, MBABANE

DTI FOR OT4
QUARTERLY ECONOMIC REPORT, JANUARY TO MARCH 1989

SUMMARY

1. THE ECONOMY REMAINED BOUYANT IN THE FIRST QUARTER OF THIS YEAR. FORECASTS OF GROWTH IN 1989 HAVE BEEN REVISED UPWARDS TO 2 PERCENT OR HIGHER. THE RESERVES ARE HOLDING STEADY AND THE GROWTH OF MONEY SUPPLY IS EASING. THE LEVEL OF CONSUMER DEMAND IS RENEWING CONCERN ABOUT THE BALANCE OF PAYMENTS AND INFLATION IS RISING AS EXPECTED. THE PROSPECTS FOR THE REMAINDER OF 1989 ARE GENERALLY GOOD.

DETAIL

2. FORECASTS OF THE LIKELY GROWTH OF THE SOUTH AFRICAN ECONOMY IN 1989 HAVE BEEN REVISED UPWARDS TO 2 PERCENT OR HIGHER IN THE LIGHT OF PERSISTENTLY HIGH LEVELS OF CONSUMER SPENDING, GROWTH IN FIXED INVESTMENT, INCREASED BUILDING STARTS AND SHARE PRICE RISES ON THE JSE. THE BETTER THAN EXPECTED PERFORMANCE TOWARDS THE END OF 1988 HAS MEANT THAT THE PRESENT STEADY GROWTH HAS CONTINUED LONGER THAN WAS EITHER EXPECTED OR PLANNED BY THE GOVERNMENT.

3. THE BUDGET IN MARCH WAS WELL BALANCED AND CAUTIOUS. THE GOVERNMENT RAISED SALES TAX AND, IN REAL TERMS, INCOME TAX. THE BUDGET DEFICIT IS EXPECTED TO FALL TO AROUND 4 PERCENT OF GDP. THE MAIN UNCERTAINTY RELATES TO THE GOVERNMENT'S ABILITY TO CONTROL ITS SPENDING. EXPENDITURE LAST YEAR WAS R1.76 BILLION ABOVE BUDGET. REVENUES WERE ALSO HIGHER AND THE OVERALL BUDGET DEFICIT WAS LOWER THAN EXPECTED. HOWEVER, THE GOVERNMENT IS STILL HAVING TO BORROW TO FINANCE CURRENT SPENDING. ANNUAL INTEREST ON GOVERNMENT DEBT IN THE NEW FINANCIAL YEAR WILL AMOUNT TO R10 BILLION. A CONTINGENCY RESERVE OF R1 BILLION HAS BEEN INCLUDED IN THIS YEAR'S ESTIMATES TO PROVIDE HEADROOM FOR UNFORESEEN COSTS.

4. THE BOUYANCY IN THE ECONOMY IS CREATING RENEWED CONCERNS OVER THE BALANCE OF PAYMENTS. THE GOVERNOR OF THE CENTRAL BANK HAS SAID HE IS

AIMING FOR A SURPLUS OF AT LEAST R4 BILLION IN 1989. IN THE FIRST TWO MONTHS OF THIS YEAR, THE CURRENT ACCOUNT EXPERIENCED A NET DEFICIT OF R400M, LARGELY BECAUSE OF A 20 PERCENT DECLINE IN EXPORTS OF UNCLASSIFIED GOODS WHICH INCLUDE GOLD AND ARMS. EXPORTS ARE EXPECTED TO BE HIGHER IN MARCH BUT ANY CURRENT ACCOUNT SURPLUS IN THE FIRST QUARTER WILL BE SMALL. SCHEDULED DEBT REPAYMENTS IN 1989 AMOUNT TO DOLLARS 1.7 BILLION. A THIRD SHORT TERM LOAN FROM SWISS BANKS IS REPORTED TO HAVE BEEN ARRANGED BUT THESE ARE VERY SMALL COMPARED TO THE NET CAPITAL OUTFLOW WHICH TOTALLED R6.7 BILLION IN 1988.

5. INFLATION IS RISING, AND WILL CONTINUE TO DO SO. THE CPI AT THE END OF DECEMBER WAS 12.5 PERCENT AND ROSE TO 13.5 PERCENT BY THE END OF FEBRUARY LARGELY BECAUSE OF THE COST OF MORTGAGES, LAST YEAR'S EXCHANGE RATE DECLINE, INCREASED IMPORT SURCHARGES AND FUEL PRICE RISES. THE PPI IS AT 14.6 PERCENT. THE GOVERNMENT EXPECTS THE CPI TO RISE TO AROUND 15 PERCENT AND LEVEL OFF BY THE END OF THE YEAR.

6. THE PROSPECTS FOR 1989 ARE NONETHELESS REASONABLY GOOD. THE RESERVES HAVE HELD STEADY IN THE FIRST QUARTER. AT THE END OF MARCH THEY WERE AT R5.1 BILLION (DOLLARS 2.05 BILLION). MONEY SUPPLY GROWTH IS BEGINNING TO EASE. M3 INCREASED 26.15 PERCENT IN THE YEAR TO FEBRUARY, COMPARED TO 27.55 PERCENT TWO MONTHS EARLIER. THE RATE OF GROWTH OF M3 THIS YEAR IS INSIDE THE 14-18 PERCENT TARGET RANGE. WAGE INCREASES ARE MODERATING DESPITE RISING INFLATION. IN THE PERIOD OCTOBER TO FEBRUARY, AVERAGE WAGE INCREASES WERE 16.7 PERCENT COMPARED TO 17.9 PERCENT FOR 1988 AS A WHOLE. GROSS DOMESTIC SAVING IS ALSO ON THE INCREASE. WHILE PERSONAL SAVINGS FELL TO 1.7 PERCENT OF DISPOSABLE INCOMES, THIS WAS MORE THAN OFFSET BY RISES IN COMPANY AND GENERAL GOVERNMENT SAVING.

7. PRODUCERS ARE CONFIDENT. AFTER A 16 PERCENT INCREASE IN PRIVATE CAPITAL SPENDING IN 1988, 90 PERCENT OF MANUFACTURERS REPORT THAT THEY EXPECT BUSINESS TO BE GOOD FOR THE REMAINDER OF THIS YEAR. AGRICULTURE IS ALSO DOING WELL DUE TO BETTER WEATHER CONDITIONS AND IMPROVED PRICES FOR PRODUCTS EG WOOL. THE BULK OF SOUTH AFRICA'S EXPORTS ARE MINERALS. THESE HAVE MAINTAINED THEIR VALUE DESPITE THE FALL IN THE GOLD PRICE. TOTAL SALES IN 1988 WERE DOLLARS 14.7 BILLION (R33.4 BILLION) UP FROM DOLLARS 14.1 BILLION (R28.7 BILLION) IN 1987. INCREASED PRODUCTION OF GOLD WHICH COMPRISES 73 PERCENT OF MINERAL EXPORTS OFFSET THE DROP IN THE SALE PRICE. IN RAND TERMS COAL (10 PERCENT OF THE TOTAL) INCREASED BY 20 PERCENT AND EXPORTS OF ANTHRACITE WERE UP BY 32 PERCENT. STRONG COPPER PRICES AND THE SURGE IN NICKEL PRICES ALSO CONTRIBUTED TO THE INCREASE.

8. BRITAIN'S TRADE WITH SOUTH AFRICA INCREASED IN BOTH DIRECTIONS DURING 1988. BRITISH VISIBLE EXPORTS TOTALLED POUNDS 1,075M, AN INCREASE OF 13.5 PERCENT OVER THE PREVIOUS YEAR: AND SOUTH AFRICAN EXPORTS TO THE UK TOTALLED POUNDS 806M, AN INCREASE OF 22.7 PERCENT. SOUTH AFRICA IS NOW BRITAIN'S 17TH LARGEST MARKET.

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SOUTH AFRICAN ECONOMY

1. THE LATEST ECONOMIC INDICATORS SHOW THE GOVERNMENT IS SUCCEEDING IN PROTECTING THE BALANCE OF PAYMENTS AND THAT GROWTH IN CONSUMER DEMAND IS ABATING.
2. THE TRADE SURPLUS IN MARCH WAS R1.67 BILLION, THREE TIMES THAT OF FEBRUARY. WHILE IMPORTS ROSE SLIGHTLY, EXPORTS SOARED FROM R3.8 BILLION IN FEBRUARY TO R5.13 BILLION IN MARCH. THE MARCH FIGURES MEANS THAT THERE WILL BE A CURRENT ACCOUNT SURPLUS IN THE FIRST QUARTER. INITIAL ESTIMATES PUT THE SURPLUS AT AROUND R360 MILLION BUT THIS IS LIKELY TO BE SUBJECT TO UPWARD REVISION. 'BUSINESS DAY' PREDICTS A FIRST QUARTER SURPLUS OF AROUND R1 BILLION WHEN ALL THE FIGURES ARE IN WHICH WOULD BE IN LINE WITH GOVERNOR DE KOCK'S AIM OF A CURRENT ACCOUNT SURPLUS OF AT LEAST R4 BILLION FOR 1989.
3. THE LEVELLING OFF OF IMPORTS WILL BE A WELCOME SIGN TO THE GOVERNMENT AS THEY INDICATE THAT THE MEASURES TAKEN IN THE PAST SIX MONTHS TO DAMPEN DEMAND ARE TAKING EFFECT. DOMESTIC RETAIL SALES APPEAR TO HAVE PASSED THEIR PEAK. THEY HAVE INCREASED IN REAL TERMS BY ONLY 1.4 PERCENT FROM APRIL LAST YEAR, COMPARED TO 4 PERCENT IN THE YEAR TO JANUARY.

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SOUTH AFRICAN ECONOMY: DEBT

1. THE GOVERNOR OF THE RESERVE BANK, GERHARD DE KOCK, YESTERDAY SAID HE FORESAW NO PROBLEMS WITH THE NEGOTIATION ON SOUTH AFRICA'S EXTERNAL DEBT WHICH WAS DUE IN THE NEXT 12 MONTHS, PROVIDED THE BALANCE OF PAYMENTS WERE SOUND.

2. RETURNING FROM A WORKING VISIT TO EUROPE AND THE UNITED STATES, DE KOCK SAID 'I WORRY ABOUT A LOT OF THINGS BUT I DO NOT WORRY ALL THAT MUCH ABOUT DEBT REPAYMENT IN 1990/91'. FOREIGN BANKERS WERE ATTACHING ENORMOUS IMPORTANCE TO RECENT POLITICAL DEVELOPMENTS IN SOUTHERN AFRICA AND WERE NOW ABLE TO DO THINGS FOR SOUTH AFRICA WHICH WERE NOT POSSIBLE A YEAR OR TWO AGO. WHILE THE BANKS DID NOT WANT TO INCREASE THEIR EXPOSURE TO SOUTH AFRICA, ROLLING OVER EXISTING LOANS WAS DIFFERENT. MANY MATURING BONDS HAD BEEN SUCCESSFULLY ROLLED OVER. EVEN IF SOUTH AFRICA HAD TO REPAY ALL THE DEBT OUTSIDE THE STANDSTILL NET (WHICH WILL AMOUNT UP TO DOLLARS 2.1 BILLION IN 1990) THEN IT WOULD MANAGE TO DO SO.

3. DE KOCK'S UP-BEAT COMMENTS CAME SHORTLY AFTER THE NEWS THAT THE CITICORP BANK, ONE OF SOUTH AFRICA'S MAJOR EXTERNAL CREDITORS, HAD AGREED TO RESCHEDULE DOLLARS 670 MILLION OF DEBT. THE LOANS, WHICH HAD PREVIOUSLY BEEN HELD WITHIN THE STANDSTILL NET, WILL NOW BE REPAYED IN 10 EQUAL HALF-YEARLY REPAYMENTS FROM 1992 TO 1997. THE RESERVE BANK ARE BEING CAREY ABOUT EXACTLY HOW MUCH BLOCKED DEBT HAS BEEN CONVERTED, BUT WE UNDERSTAND THAT AS MUCH AS DOLLARS 3 BILLION MAY HAVE BEEN CONVERTED INTO LONG-TERM BONDS AND A FURTHER DOLLARS 500 MILLION INTO EQUITY.

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SPEAKING NOTE FOR USE WITH THE SOUTH AFRICAN AMBASSADOR

Arrests in Paris

- You will not be surprised to learn that the arrests in Paris on Friday, 21 April, of three Britons, an American and a South African Embassy official, apparently in the act of exchanging stolen weapons, has aroused the gravest concern on the part of the British Government.
- Sir Geoffrey Howe has asked me to convey to you the strongest protest at what, from the charges brought by the French, appears to have been an attempt by South African agencies to breach the UN Arms Embargo.
- That would be serious enough, but worse, the transaction also appears to have involved military equipment stolen in Northern Ireland by Ulster extremists. I note that the French charges include criminal association of a terrorist character.
- I have been instructed to ask you to convey to your Government the British Government's strong protest at these events, with a request that action be taken with the appropriate agencies to ensure that there can be no repetition and that any other similar exercises in progress are stopped at once.

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- I have two further points to make which are not part of my formal protest. First, with a senior Minister of the South African Government about to call on the Prime Minister and the Foreign Secretary, these events could hardly have come at a worst time. Secondly, an affair of this kind can only damage our efforts to create a better climate in Southern Africa and in particular to enhance contact at Ministerial level between Britain and South Africa. These activities by the South African Defence Agencies are acting directly contrary to South Africa's diplomatic policies.

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SUBJECT cc Mante



bc PC

10 DOWNING STREET

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LONDON SW1A 2AA

From the Private Secretary

24 April 1989

Dear Richard

PRIME MINISTER'S MEETING WITH THE SOUTH AFRICAN
FINANCE MINISTER

The Prime Minister had a talk this afternoon lasting about an hour with the South African Finance Minister. Mr. du Plessis was accompanied by the South African Ambassador.

Armscor

The Prime Minister said there was one matter which she must raise straight away, even though she knew it was not Mr. du Plessis' direct responsibility, and that was South Africa's involvement in the arms trafficking case in Paris. We took a very serious view of this matter and would require a full explanation from the South African Government. Mr. du Plessis handed over the text of a statement released by Pik Botha. He added that, on a personal basis, he was very sorry that this had happened. The Prime Minister said that we would have to tell the press that she had raised the matter and stressed the gravity of it.

Namibia

The Prime Minister said that she was gratified that South African had kept to the terms of the Namibia Agreement, despite SWAPO's provocation. She welcomed the decision to withdraw South African forces to their bases for 60 hours, to give remaining SWAPO personnel an opportunity to return to Angola and withdraw north of the 16th parallel. SWAPO's behaviour had been stupid in the extreme, but it had been very important that South Africa should not be the one to undermine the authority of the United Nations. Mr. du Plessis said that he had been asked to express President Botha's appreciation for the Prime Minister's help over Namibia. The South African Government was determined to get the situation back on track. SWAPO's behaviour had dealt a blow to negotiation politics and that would be a problem for the South African Government internally. People would have no confidence in any agreement eventually reached with the ANC if they saw the international community let SWAPO get away with ignoring their obligations. That was why it had been so important that the Prime Minister had spoken out strongly. Mr. du Plessis added that President Kuanda had told the South African Government that it had been President Mugabe who had advised Nujoma to carry out the

incursions. The Prime Minister commented that she was not surprised. b

Situation in South Africa

The Prime Minister said that she would continue to argue that sanctions were wrong and that it would be a great mistake to impose any additional measures when things were beginning to go the right way in South Africa and the Namibia Agreement was being implemented. But the pressure for additional measures, in particular financial sanctions, would be there. Mr. du Plessis would know better than anyone what the consequences of financial sanctions would be. He was in a position to exert leverage, by explaining these consequences fully to his colleagues in the Government. There was no realistic prospect of a thaw in the treatment of South Africa internationally unless Nelson Mandela was released and a start made on negotiations. If Mandela were to die in jail, then South Africa would have blown it and it would be all their own fault. But his release would open up possibilities, provided it was combined with some obvious movement politically. She assumed that Mr. du Plessis and his colleagues were working on this.

Mr. du Plessis said that elections would be held in South Africa in mid September and would mark the transfer of power to a new and younger generation of politicians. Mr. de Klerk would become State President, unless something very strange were to happen. De Klerk was much better aware than President Botha of the realities of South Africa's financial position, and understood that negotiations with black South Africans had to be underpinned by faster economic growth if they were to have a chance of succeeding. That in turn required renewed foreign investment. Without it, South Africa would be locked into an everlasting stop-go economy. He had warned President Botha about this, but he had not seemed to comprehend.

Du Plessis continued that he had seen the paper which the Prime Minister had handed Pik Botha on the implications of the release of Mandela and agreed entirely with it. The Mandela issue was being managed by a small circle in South Africa of which he was not a member. All he could say was that he hoped and prayed that Mandela would not die before the elections. Unfortunately the risk of releasing him in advance of the elections was too great. But there were good reasons to believe that Mandela would like to come out of prison and play a responsible role. He wanted to handle the situation himself rather than leave it to lesser men in the ANC. Several members of the present government wanted to see him come out under well-managed circumstances. It was important to arrange it so that moderate black leaders in South Africa got a full share of the credit. Equally, the Government would want some assurance from Mandela about his readiness to take part in negotiations, even if he decided to go first to Lusaka. In short the situation was maturing, but he hoped we could avoid giving it too high a profile in the period between now and the elections. The Prime Minister said that we had made our position on Mandela clear and there was no need to labour it.

Equally, the South African Government must avoid tying its hands during the election campaign. Mr. du Plessis said that he and his colleagues would handle the matter sensitively.

Mr. du Plessis said that he and his main colleagues recognised that there would be a new opportunity for South Africa after the elections, both politically and in economic terms and they must make the most of it. He was preparing a new economic programme which would bring higher growth without the same propensity to import. South Africa's most urgent need was to get back into the international community and in particular have an IMF facility restored. They hoped for the United Kingdom's support in this.

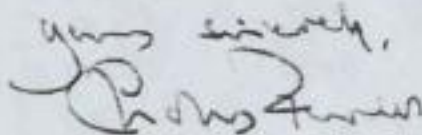
The Prime Minister said that the release of Mandela would not on its own be enough to secure support for this. The South African Government must think out an agenda for political progress after the elections. Du Plessis said that he and his colleagues were working on a document, although it was unlikely that they would publish it before the elections. Their aim was to reach agreement with moderate black leaders on a perspective for solving South Africa's problems, rather than going for quick results. With that, they could begin to change perceptions. The Prime Minister doubted whether a perspective would be enough to unlock IMF help. It would be necessary to start on a process of negotiation. There was little chance of outside help without real political progress. Mr. du Plessis said that his strategy was to calculate the cost to South Africa in concrete terms of failure to make progress and to describe to his colleagues the new financial climate into which South Africa could begin to move once there was political progress. He understood that South African could not survive in isolation from the world. Equally, once they started to make real progress, they would need and expect help.

As the conversation ended, the Prime Minister said that she would very much like to see Mr. de Klerk if he was able to come to London ahead of the elections. Mr. du Plessis said that he would pass on this invitation: he thought that de Klerk would welcome it.

It was agreed to tell the press that the Prime Minister and Mr. du Plessis had discussed the way ahead in South Africa and Namibia and that the Prime Minister has raised the Armscor matter, emphasising its gravity.

The Prime Minister found du Plessis quietly impressive and believes that we should give him every encouragement.

I am copying this letter to Alex Allan (HM Treasury) and to Sir Robin Renwick in Capetown.

Yours sincerely,

(C. D. POWELL)

Richard Gozney,
Foreign and Commonwealth Office.



Foreign and Commonwealth Office

London SW1A 2AH

21 April 1989

Jean Chalker

Prime Minister's Meeting with the South African
Finance Minister, 24 April

Barend du Plessis is calling on the Prime Minister at 1600 hrs on 24 April. The Foreign Secretary and Mrs Chalker will see him on 25 April. He is coming on a so-called private visit for the sake of cover. He will also meet a number of senior British businessmen and bankers at a lunch hosted by Lloyds of London earlier on 24 April.

[attached] We expect to receive today a telegram from Sir Robin Renwick setting the scene for Mr du Plessis' visit.

Our interest in Mr du Plessis relates less to his current position than to his likely influential role in a future South African Government, following P W Botha's departure.

The Prime Minister may wish to question Mr du Plessis on his view of prospects for a resumption of the reform process in South Africa after the next general election (now expected in September), and underline the importance of further reform measures to international opinion. She could impress on him that in the absence of significant reforms pressure for more sanctions, especially in the US and the EC, may be uncontainable.

Sir Robin Renwick has reported that Mr du Plessis is personally in favour of Mr Mandela's release after the next elections. The Prime Minister could emphasise the serious consequences for South Africa should Mr Mandela die in jail. It would be right to hand to Mr du Plessis a copy (enclosed) of the agreed UK/FRG speaking note which the Prime Minister passed to Pik Botha last month, emphasising its sensitivity.

Should Mr du Plessis raise economic matters, and in particular South Africa's debt repayments, the Prime Minister may like to point out that this is a matter for the banks. The banks are watching the situation in South Africa closely including the reform process and will be influenced by their assessment of South Africa's future prospects. (ECGD have recently assessed the situation and are not prepared to increase further cover.)

/On

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On Namibia, it may be a bit clearer by 24 April whether SWAPO will withdraw their forces to South Africa's satisfaction. The Prime Minister could emphasise that we have been urging on all sides the importance of SWAPO moving north of the sixteenth parallel in Angola so that South African forces can go back to base quickly. We strongly support the United Nations Plan and are urging SWAPO to adhere to it. The South African Government must also continue to stick to the Plan and not try to take advantage of SWAPO's initial blunder. It would be a very serious step for South Africa to stop the clock unilaterally. The fact that it was SWAPO who originally breached the Plan would thereby be quickly forgotten.

/ I enclose a personality note on Mr du Plessis.

Yours ever,

Richard Gozney

(R H T Gozney)
Private Secretary

C D Powell Esq
PS/10 Downing Street

CONFIDENTIAL

SECRET AND PERSONAL

AGREED UK-FRG RESPONSE TO POSSIBLE RELEASE OF
NELSON MANDELA

- We believe that Mandela's release is in South Africa's own interests.
- In our assessment it would create a new and improved climate of benefit to South Africa internally and in her relations with the outside world.
- It would also reinforce our joint stand against sanctions and other restrictive measures.
- And it would make it easier for us to play a helpful role over the problems facing South Africa in its dealings with the banks over bearer bonds.
- Looked at realistically it would not on its own lead to the dismantling of any sanctions.
- But if the South African Government were to build on Mandela's release to launch a dialogue between all political groups in South Africa, we would then see what could be done to meet South Africa's concerns on sanctions (although we could not give advance assurances affecting others).

X11ADU

SECRET AND PERSONAL

DU PLESSIS, BAREND JACOBUS

Minister of Finance. MP for Florida, Transvaal.

Born 1940 in Johannesburg. Obtained a BSc and trained as a teacher at Potchefstroom. Taught science for one year. Worked for the SABC (1962-68) and IBM (1968-74) including training at IBM Graduate School of Banking, Princeton, USA. 1972 elected to Roodeport Town Council: Mayor 1974. Elected MP for Florida 1974. Appointed Deputy Minister of Foreign Affairs 1982: Minister of Education and Training in 1983: led moves to remove discriminatory employment practices in his Department. Appointed to current post in 1984.

On the board of various companies and involved with different religious and cultural organisations. A frequent traveller abroad. Category I visitor in 1981.

Ambitious, able and modern-minded. A rising star in the National Party who has improved his competence as Finance Minister, initiated privatisation and is tipped as an eventual leader of his party. Came a very close second to F W de Klerk in the party leadership election of February 1989.

Wife Antoinette attractive and intelligent. Keen on hunting. Three sons, one daughter.

PRIME MINISTER

MEETING WITH THE SOUTH AFRICAN FINANCE MINISTER: 24 APRIL

You are to see Mr. du Plessis, the South African Finance Minister, on Monday afternoon. We shall announce the meeting only after it has taken place.

You will find a note by the FCO in the folder and, more importantly, a background telegram from Sir Robin Renwick.

The objective of the meeting is two-fold: to give du Plessis - who is bound to be an influential figure in any future South African government - the feeling that he has a friend to whom he can talk in London: but at the same time to leave him in no doubt of the necessity of further and early steps in the reform process, in particular the release of Mandela and the opening of negotiations with black South Africans.

As Finance Minister, du Plessis has a much better understanding than most South African politicians of the risks to South Africa's future from failure to attract capital from outside. You want to bring home to him the degree to which political reform will help release the flow of inward investment once again. In that context, you might hand over the note which we sent to President Botha, responding to his question about what Britain and Germany would do if Mandela were released.

You will also want to bring home to him the likelihood of further pressure from the United States and the Commonwealth for sanctions. We can only successfully head this off - and keep the Germans with us if the South Africans

- (a) take further steps on reform, and
- (b) abide strictly by the terms of the Namibia agreement.

On Namibia, you can congratulate the South African government on their performance so far in abiding by the Agreement and in particular their decision to withdraw South African forces from the vicinity of the assembly points for sixty hours to enable SWAPO to pull out their remaining forces. It is vital that South Africa should continue to be the party which observes the Agreement, and SWAPO the defaulters.

You will also want to say that you would welcome the chance to see Mr. de Klerk if he is able to visit London privately in June, before the South African election campaign starts; and you are determined to maintain contact with the new government after the elections, provided they are prepared to take further steps towards reform.

C.D.R.

(C.D. POWELL)

21 April 1989

DALACH

CONFIDENTIAL

DEDIP

FM CAPE TOWN EMBASSY

TO IMMEDIATE FCO

TELNO 244

OF 201600Z APRIL 89

CCBkup

NY TTELNO 219: VISIT OF BAREND DU PLESSIS

1. BAREND DU PLESSIS CAME TO LUNCH TODAY. HE IS LOOKING FORWARD TO HIS MEETING WITH THE PRIME MINISTER ON 24 APRIL AND WITH YOU ON THE FOLLOWING DAY. HE ATTACHES A LOT OF IMPORTANCE ON THOSE MEETINGS.

2. HE BELONGS TO THE NEW GENERATION OF NATIONAL PARTY LEADERS (48 YEARS OLD, WORKED FOR A TIME WITH IBM AND STUDIED BRIEFLY AT PRINCETON). HE IS MODERN-MINDED AND HAS FEW OF THE IDEOLOGICAL HANG-UPS OF HIS PREDECESSORS. AS FINANCE MINISTER HE HAS GROWN IN AUTHORITY OVER THE PAST FOUR YEARS. HE WAS PREVIOUSLY DEPUTY MINISTER FOR FOREIGN AFFAIRS.

3. IN THE RECENT LEADERSHIP ELECTION HE FAILED BY ONLY SIX VOTES TO DEFEAT F W DE KLERK. THE PARTY SINCE THE ELECTION HAS RALLIED BEHIND DE KLERK AND DU PLESSIS IS UNLIKELY TO CHALLENGE HIM AFTER THE ELECTIONS IN SEPTEMBER. HE WILL, HOWEVER, THEN CLEARLY BE THE SECOND MOST INFLUENTIAL MEMBER OF THE GOVERNMENT, PROBABLY STILL IN HIS PRESENT PORTFOLIO.

4. DU PLESSIS KNOWS THAT THE DEBT CRISIS OF 1985 MARKED A FUNDAMENTAL TURNING POINT FOR SOUTH AFRICA. AFTER THE DISTURBANCES OF 1984-86, THERE HAS BEEN A BETTER ECONOMIC PERFORMANCE WITH A 2.5 PERCENT INCREASE IN GDP IN 1987 AND 3 PERCENT IN 1988. THOSE INCREASES ARE PROBABLY UNDER-MEASURED AS A RESULT OF THE EXPANSION OF THE INFORMAL SECTOR TO WHICH, THROUGH DE-REGULATION, DU PLESSIS HAS CONTRIBUTED. BUT GROWTH EVEN AT THIS RATE IS NOT SUSTAINABLE WITHOUT AN INFLOW OF CAPITAL. ACTION HAS HAD TO BE TAKEN TO COOL DOWN THE ECONOMY AS THE GROWTH IN DOMESTIC DEMAND SUCKED IN IMPORTS AND THE RESERVES ARE UNCOMFORTABLY LOW. THE PRIME LENDING RATE HAS BEEN RAISED TO 19 PERCENT. SOUTH AFRICA HAS TO RUN A LARGE TRADE SURPLUS TO FINANCE DEBT REPAYMENTS AND THE CAPITAL OUTFLOW.

5. DU PLESSIS IS ADAMANT THAT SOUTH AFRICA WILL HONOUR ITS DEBTS. IF NECESSARY, TO PROTECT THE BALANCE OF PAYMENTS, THEY WOULD HAVE TO CONSIDER INTRODUCING MORE DIRECT IMPORT CONTROLS, BUT DU PLESSIS DOES NOT WANT TO GO DOWN THAT ROAD. HE HAS FOUGHT A SERIES OF BATTLES, TO HOLD DOWN GOVERNMENT EXPENDITURE, THOUGH HE WAS UNABLE TO PREVENT A SUBSTANTIAL INCREASE BEING GIVEN TO THE HORDES OF CIVIL SERVANTS FOR ELECTORAL REASONS LAST YEAR. HE HAS JUST PUSHED THROUGH A PRETTY TOUGH BUDGET FOR AN ELECTION YEAR.

6. WITHIN THE NEXT YEAR SOUTH AFRICA WILL HAVE TO REACH A FURTHER AGREEMENT WITH ITS CREDITORS. HALF THE COUNTRY'S DOLLARS 22 BILLION DEBT IS HELD WITHIN A STANDSTILL NET. UNDER THE PRESENT AGREEMENT, SOUTH AFRICA IS COMMITTED TO PAYING INTEREST ON DEBT WITHIN THE NET PLUS REPAYMENT OF THE CAPITAL AT THREE PERCENT PER ANNUM. BECAUSE OF THE 1990-92 BULGE CAUSED BY THE REPAYMENT OF BEARER BONDS OUTSIDE THE NET, SOUTH AFRICA WILL NEED SOME PRACTICAL HELP FROM THE BANKS IN SMOOTHING OUT PAYMENTS IN THAT PERIOD, AS WELL AS THE RENEWAL OF THE EXISTING AGREEMENT. THEREAFTER THE DEBT PROBLEM SHOULD BE REDUCED TO MANAGEABLE PROPORTIONS AS SOUTH AFRICA, VIRTUALLY ALONE AMONG DEVELOPING COUNTRIES, HAS REPAYED A SUBSTANTIAL AMOUNT OF CAPITAL (DOLLARS SIX BILLION OVER THE PAST FOUR YEARS).

7. DU PLESSIS SAID THAT HE REALISED THAT SOUTH AFRICA COULD NOT PROSPER WITHOUT REGAINING ACCESS TO EXTERNAL CAPITAL. THE INABILITY TO DO SO WAS LEADING TO CUT-BACKS IN EXPENDITURE ON BLACK EDUCATION AND HOUSING.

8. HE SAID THAT AT PRESENT WE HAD TO SPEND OUR TIME FIGHTING MAINLY DEFENSIVE BATTLES AGAINST FURTHER SANCTIONS. THE NEW GOVERNMENT AND LEADERSHIP WOULD HAVE A PERIOD OF OPPORTUNITY AFTER THE ELECTIONS IN SEPTEMBER. IT WAS IMPORTANT THAT THIS SHOULD NOT BE WASTED AS, OTHERWISE, SOUTH AFRICA WOULD FIND ITSELF INCREASINGLY ISOLATED. THE REAL DANGER WAS NOT REVOLUTION BUT A SLOW ECONOMIC HAEMORRHAGE. IRRESPECTIVE OF THE ATTITUDE OF GOVERNMENTS, BANKERS AND MAJOR INDUSTRIAL HOUSES ABROAD WOULD NOT INVEST NEW CAPITAL IN SOUTH AFRICA UNLESS THEY WERE CONVINCED THAT THE SOUTH AFRICAN GOVERNMENT HAD A PLAN TO DEAL WITH THE COUNTRY'S PROBLEMS WHICH HAD SOME CHANCE OF SUCCESS AND THAT PROGRESS WOULD BE MADE WITH NEGOTIATIONS.

9. DU PLESSIS SAID THAT HE WANTED TO SEE A NEW IMPETUS GIVEN TO INTERNAL CHANGE. AT THE SAME TIME ORDER HAD TO BE MAINTAINED: IT WAS THE DISTURBANCES FROM 1984 ON THAT HAD TRIGGERED THE FLIGHT OF CAPITAL. HE HOPES THAT, AFTER THE ELECTIONS, IT WILL BE POSSIBLE TO MAKE PROGRESS WITH NEGOTIATIONS WITH BLACK LEADERS, ESPECIALLY BUTHELEZI, BUT ON THE BASIS OF POWER-SHARING AND CERTAINLY NOT A TRANSFER OF POWER. LIKE EVERY OTHER NATIONAL PARTY MINISTER AND THE LARGE MAJORITY OF THE WHITE ELECTORATE, HE WILL RESIST NEGOTIATIONS WITH THE ANC UNLESS THEY COMMIT THEMSELVES TO CEASE VIOLENCE.

10. THE PRIME MINISTER MAY WISH TO TELL DU PLESSIS THAT AT THE COMMONWEALTH CONFERENCE IN KUALA LUMPUR THE CANADIANS, AUSTRALIANS AND NEW ZEALANDERS ARE LIKELY TO BE PRESSING FOR FURTHER FINANCIAL SANCTIONS, NO ROLLING OVER OF THE DEBTS AND THE DENIAL OF EXPORT CREDITS. WE, OF COURSE, WILL OPPOSE THAT (A REFUSAL BY THE BANKS TO EXTEND THE PRESENT ARRANGEMENTS WOULD RESULT IN A DEFAULT, ENTAILING THE LOSS OF OUR INVISIBLE EARNINGS AND VIRTUALLY ALL EXTERNAL INFLUENCE HERE). BUT SOUTH AFRICA'S PROSPECTS WILL DEPEND NOT ONLY ON WHAT WE DO, BUT ALSO ON WHAT OUR KEY ALLIES DO. WE HAVE TO FIGHT MORE BATTLES THAN THE SOUTH AFRICANS REALISE TO KEEP THE US ADMINISTRATION FIRM AGAINST FURTHER CONGRESSIONAL PRESSURES AND TO ENSURE THAT KOHL DOES NOT GIVE WAY TO GENSCHER. OUR ABILITY TO FIGHT OFF FURTHER SANCTIONS AND, IF POSSIBLE, TO CHANGE THE CLIMATE SO FAR AS SOUTH AFRICA IS CONCERNED WILL DEPEND ON (A) SOUTH AFRICA CONTINUING TO HONOUR ITS OBLIGATIONS UNDER THE NAMIBIA SETTLEMENT WHICH, DESPITE THE SWAPO VIOLATIONS, SO FAR IT HAS BEEN DOING; BUT ALSO (B) REAL MOVES AFTER THE ELECTIONS TO GET NEGOTIATION UNDER WAY.

11. ON (A) DU PLESSIS IS WORRIED ABOUT DEVELOPMENTS BECAUSE OF THE IMPACT SWAPO'S BEHAVIOUR IS HAVING ON THE WHITE ELECTORATE HERE. THE SOUTH AFRICANS THOUGHT THEY HAD REACHED AN AGREEMENT WHICH WOULD LEAD TO A RESOLUTION OF THE PROBLEM. HE WAS GRATEFUL FOR THE SUPPORT THEY HAD RECEIVED FROM US.

12. THE PRIME MINISTER WILL WANT TO EMPHASISE THAT WE DO NOT BELIEVE THAT (B) WILL BE POSSIBLE WITHOUT THE RELEASE OF MANDELA. BUTHELEZI HAS MADE CLEAR THAT, WHILE HIS POSITION IS VERY DIFFERENT, HE CANNOT NEGOTIATE WHILE MANDELA REMAINS IN JAIL. OF COURSE THERE ARE RISKS ASSOCIATED WITH RELEASING MANDELA. BUT IF HE IS NOT RELEASED, THE INTERNATIONAL CAMPAIGN AGAINST SOUTH AFRICA WILL CONTINUE AND INTENSIFY. IF HE DIED IN PRISON, THE DAMAGE WOULD BE IRREVERSIBLE. DE KLERK HAS TALKED OF THE NEED FOR NEGOTIATIONS ON A NEW CONSTITUTION. IF SUCH NEGOTIATIONS WERE OFFERED WITHOUT PRE-CONDITIONS, THAT COULD HELP TRANSFORM THE SITUATION.

13. DU PLESSIS IS MORE ADVANCED IN HIS THINKING THAN DE KLERK. HE IS WELL AWARE THAT SOUTH AFRICA CANNOT PROSPER IN A STATE OF SEIGE. HE IS CONCERNED TO BE ASSURED THAT IF THE NEW LEADERSHIP CAN NERVE THEMSELVES TO TAKE POSITIVE STEPS, WE WILL RESPOND. DU PLESSIS DOES NOT APPEAR TO HAVE RECEIVED THE PAPER THE PRIME MINISTER GAVE TO PIK BOTHA AND I RECOMMEND THAT A COPY SHOULD BE HANDED TO HIM, MAKING CLEAR THAT THIS IS BEING DONE ALSO WITH THE AUTHORITY OF CHANCELLOR KOHL.

14. THE PRIME MINISTER MAY WISH TO ADD THAT SHE WOULD WELCOME THE CHANCE TO SEE DE KLERK IF HE IS ABLE TO VISIT LONDON PRIVATELY IN JUNE, BEFORE THE ELECTION CAMPAIGN GETS UNDER WAY. THEREAFTER WE SHOULD LOOK FORWARD TO FURTHER CONTACT WITH THE SOUTH AFRICAN GOVERNMENT AFTER THE ELECTIONS. THE NEW GOVERNMENT WILL HAVE A WINDOW OF OPPORTUNITY. IT IS IMPORTANT THAT THE OPPORTUNITIES WHICH WILL THEN BE OPENED UP SHOULD NOT BE LOST, AS THEY ARE UNLIKELY TO OCCUR AGAIN.

15. FCO PLEASE ADVANCE TO NO 10 DOWNING ST.

RENWICK

YYYY

SECRET



FILE

KK

to PC

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

23 March 1989

VISIT OF SOUTH AFRICAN FINANCE
MINISTER

I have seen Robin Renwick's telegram saying that du Plessis cannot come on 10 April after all. The Prime Minister could see him on 24 April at 1600. I should be grateful if this could be conveyed to du Plessis.

(C. D. POWELL)

Richard Gozney, Esq.,
Foreign and Commonwealth Office.

SECRET



10 DOWNING STREET

Dominic

Do Plessis cannot
have come ~ 10
April. Can we
find another date
after 14 April
please (not 5 May).

W

CDP

We have him in
for 24 April at 1600 for 1 hr
ok? or



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From the Secretary of State

Ian Ellison Esq
 Private Secretary
 Secretary of State for Industry
 Ashdown House
 123 Victoria Street
 SW1

12 October 1979

Dear Ian

SOUTH AFRICA

I attach a note of a meeting which my Secretary of State had with the South African Minister of Finance yesterday. Officials in ECGD and the Department of Trade have subsequently had a further meeting with Hill Samuel (South Africa and UK) to clarify certain points.

Clearly the South African approach raises important issues; and at the same time the South Africans are pressing for urgent decisions. Roy Williams (Under-Secretary CRE5) proposes to invite representatives of relevant departments here early next week to discuss our attitude to the proposed "macro-credit": in particular, should we offer to negotiate this, and if so, what degree of commitment over business for UK suppliers should we demand in return?

Meanwhile ECGD will be processing the particular credit applications for the power stations in the usual way.

Copies of this letter go to Tim Lankester (No 10), George Walden (FCO), Martin Hall (Treasury) and Martin Vile (Cabinet Office).

Yours sincerely,

S HAMPSON
 Private Secretary

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SECRETARY OF STATE FOR TRADE OFFICE MINUTE NO: 1592/79

NOTE OF THE SECRETARY OF STATE'S MEETING WITH THE SOUTH AFRICAN MINISTER OF FINANCE IN ROOM 801 1 VICTORIA STREET ON THURSDAY 11 OCTOBER

Present:	Secretary of State	
	Mr Williams	CRE5
	Mr Cotterill	ECGD
	Mr Collins	CRE5
	Senator Horwood	South African Minister of Finance
	Dr Burger	South African Embassy, London
	Mr Botha	Hill Samuel, South Africa
	Mr van Huystee	

The meeting was held at the request of Sen. Horwood who had originally asked for a meeting with the Chancellor of the Exchequer and the Secretary of State to discuss a line of credit to the South African Government to cover major export orders.

2. Sen Horwood began by expressing his appreciation of the arrangements made at short notice for the meeting. He explained that he was keen to arrange a "macro-credit line" with the UK Government for two reasons. Firstly, there were a number of major projects in South Africa which would initially amount to \$1 billion but more was in prospect over the next 5-10 years. Secondly, South Africa had close contact with British financial institutions and manufacturers but they were conscious that world competition was in danger of reducing the extent of business placed in the UK. His proposals covered the following main points:

- i) the ordering period should be 36 months rather than the 24 months which ECGD normally considered appropriate;
- ii) no commitment commission should be payable until an order was placed;
- iii) the credit period from commissioning should be 8-8½ years or possibly a similar period beginning six months after the commissioning. The five year period which ECGD regarded as normal was being regularly bettered elsewhere;
- iv) the interest rate was currently 7½%, and he was not suggesting that this could be easily negotiated further, but he would like re-examination of the premium to be paid.

3. Mr Botha went on to expand on this point. On the ordering period he said that the longer term would allow - particularly in the case of locomotive orders - the credit to be established on a project basis, which would enhance the chances of orders being placed in Britain. The point had been instrumental in losing two earlier orders to the Japanese and the Germans (although cost escalation was another factor involved, which could now be worked out with ECGD). Mr B added two other points which he would like to be considered in this case:

- i) the norm for the amount covered was 80%, whereas it was suggested that 85% coverage should be arranged;
- ii) ECGD have allowed 9.2% of local construction for major turbine contracts whereas other countries were allowing up to 11%.

4. Sen Horwood emphasised that all these points had been offered by other countries and he thought that they were justified since South Africa was an area which was far more stable than might be suggested in the media.

5. The Secretary of State said that he was concerned that the UK should not extend the frontiers of the credit race. The UK was always willing to provide equal terms to those offered by other countries but we could not consider being the first to advance beyond Consensus rates. The UK had nothing to gain by taking the lead on credit terms since other countries were prepared to devote greater resources to subsidising credit. On the other hand, he was concerned at the suggestion that the UK was losing orders because we could not offer competitive finance. He was certain that we could move very fast on a matching basis (as well as making protests where the Consensus was broken), but he also agreed that the UK should not always be lagging behind if this resulted in the loss of a deal. Mr Cotterill confirmed that most of the points which had been mentioned by Sen Horwood and Mr Botha were negotiable, but he doubted whether terms of 7 $\frac{1}{2}$ % would be obtainable for a period above 5 years and 7 $\frac{1}{2}$ % was more likely.

6. The Secretary of State asked why the South Africans were looking for a "macro-credit line". He said that since taking office the Government had treated all applicants for credit on the same basis. He was personally not in favour of credit agreements such as that which Sir Harold Wilson had negotiated with the USSR: in that case the agreement had proved fairly meaningless, with hardly anything being taken up for five years. He was not therefore in favour of political gestures but he would certainly look with an open mind on a line of credit if it was attached to specific orders. Mr Botha said that there were three major projects in view. Escon were planning two power stations; there was a major order for locomotive and electrical equipment; the other project was for TV equipment. Two further major contracts would be considered later which could use British equipment. Mr van Huystee said that in connection with the SASOL project (for converting coal to liquid fuel) the UK had a £15 million line of credit which was negligible in the total sum. In the new projects he did not wish to see the UK lose out when it was known that British manufacturers were suitable. Mr Botha said that he could not give a commitment that the orders would be placed in the UK but he disclosed that they were considering a pre-emptive bid for one of the power stations. This would involve convincing four Departments of State that a closed tender was in the national interest, both in general terms and on the basis of the delivery of the product. If this pre-emptive bid failed, the project would be submitted to open tender and he doubted whether the UK would obtain more than a share of the sub-power stations. The concept of a "macro-credit line" was to present a total package covering contract price and finance. Sen Horwood added that big financing was essential for South Africa at the moment; SASOL II was costing 3,400m rand and a third SASOL project would cost 3,500m rand. He said that the assumption was, on the projects under discussion, that, if all other things were equal, orders would be placed in the UK.

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7. In conclusion, the Secretary of State said that the Hill Samuel representatives should discuss in more detail the possibility of a line of credit with ECGD. His approach was however commercial; what was the UK benefit from such a proposal? There was no point in putting forward better terms than our competitor offered since those would simply be matched, but preparing a package confirming that the UK could equal terms already offered elsewhere was a possibility. Sen Horwood agreed that the South African approach was similarly commercial and not political.

S Hampson

S HAMPSON
PS/SOS/TRADE
Rm 805 V/S
11 October 1979

cc PS/MoS(T)
PS/Secretary
Mr Knighton
Mr Taylor - ECGD
Mr Williams - CRE5
Mr Cotterill - ECGD
Mr Collins - CRE5
Mr Garrod



BG 6 sec o/a
 J.S.A.
 MAF 29/6/79
 Foreign and Commonwealth Office

London SW1A 2AH

29 June 1979

Dear Mautz,

South African Finance Minister

Thank you for your letter of 19 June about the forthcoming visit of Senator Horwood.

The Foreign and Commonwealth Secretary is content that the Chancellor of the Exchequer should see Senator Horwood and that he should accept the South African Ambassador's dinner invitation if he is so inclined. There does not however seem any need to recommend that the Prime Minister should receive Senator Horwood. I enclose a copy of a Note from the South African Embassy with details of the officials who will accompany Senator Horwood.

I am copying this to Mike Pattison at No 10.

Yours etc

Paul

(P Lever)

Private Secretary

M A Hall Esq
 Private Secretary to the
 Chancellor of the Exchequer
 Treasury Chambers
 Parliament St
 London SW1P 3AG

UK/7/9/21/2

The Ambassador of the Republic of South Africa presents his compliments to Her Majesty's Principal Secretary of State for Foreign and Commonwealth Affairs and has the honour to inform him that the South African Minister of Finance, Senator The Honourable O.P.F. Horwood intends visiting the United Kingdom over the period 11 to 14 July 1979.

The following officials from the Department of Finance and the South African Reserve Bank will be accompanying Senator Horwood:

- (a) Dr G.P.C. de Kock
Special Economic Adviser to
the Minister
- (b) Dr J.H. de Loor
Secretary for Finance
- (c) Mr A.H. Peacey
Deputy Director,
Department of Finance
- (d) Mr C.J. Roets
Assistant Private Secretary
to the Minister

The purpose of the Minister's visit is to renew and consolidate contacts.

The Ambassador of the Republic of South Africa avails himself of this opportunity to renew to Her Majesty's Principal Secretary of State for Foreign and Commonwealth Affairs the assurance of his highest consideration.

E.L. CLOETE

LONDON WC2N 5DP
19 June 1979



cc: S.A.F.D.

S. Africa



Treasury Chambers, Parliament Street, SW1P 3AG

01-233 3000

19th June, 1979

Dear Stephen,

*P.O.
Glen
19/6*

SOUTH AFRICAN FINANCE MINISTER

As I believe you know, Senator Horwood, the South African Finance Minister, will be in London from 11/14 July. He will be accompanied by the Secretary for Finance and the Deputy Governor of the Reserve Bank. We are arranging for Senator Horwood to make a call on the Chancellor.

We also understand that Senator Horwood has requested a call on the Prime Minister. It strikes us therefore, that it may be over-egging the pudding if the Chancellor were to accept a dinner invitation from the South African Ambassador in honour of Senator Horwood, scheduled for 12th July. I should be grateful for your advice on this latter point.

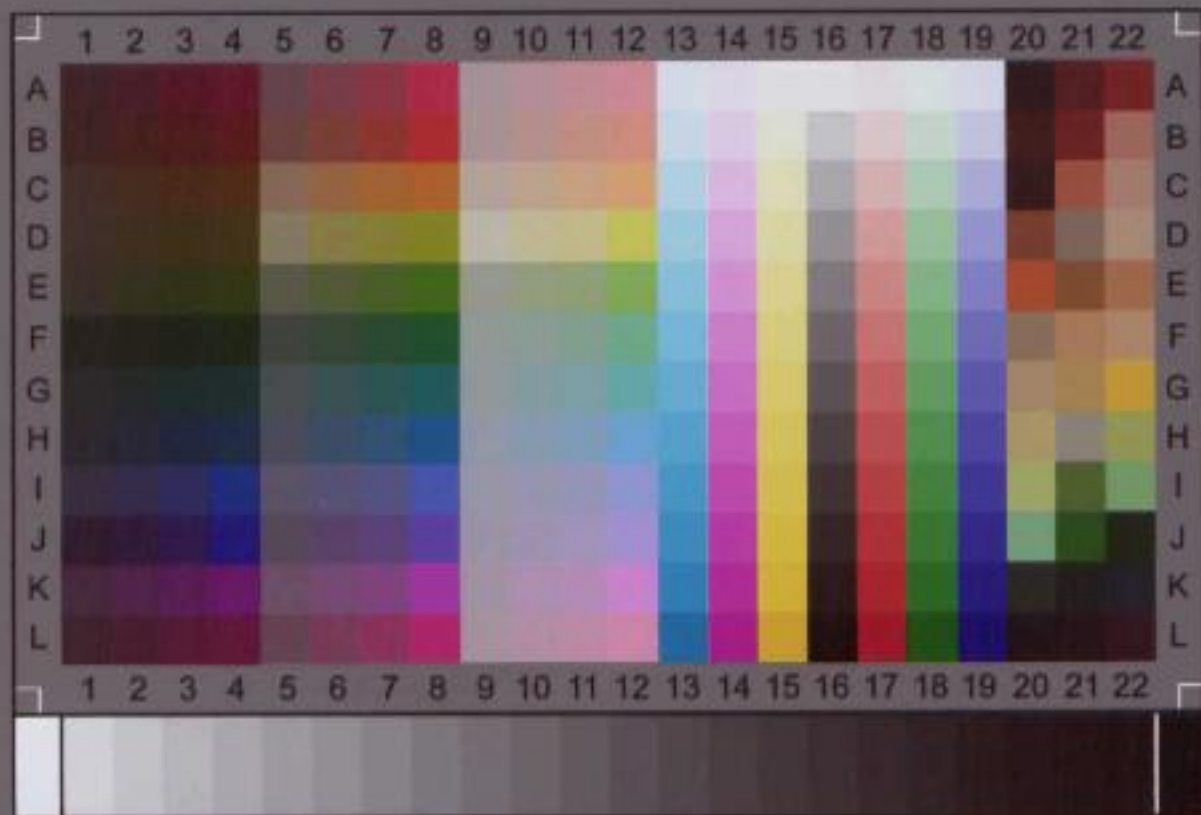
I am copying this letter to Bryan Cartledge in No.10.

Yours,

M.A.

(M.A. HALL)
Private Secretary

J.S. Wall, Esq.,
Private Secretary,
Foreign & Commonwealth Office



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